

MAJOR FACTORS AFFECTING FOREIGN INVESTMENT IN BRAZIL
AND THE INFLUENCE OF LABOR MANAGEMENT PROBLEMS
ON EACH OF THESE FACTORS

by

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B. B. A., George Washington University, 1965

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A MASTER'S REPORT

submitted in partial fulfillment of the

requirements for the degree

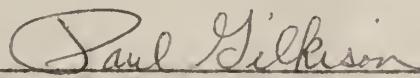
MASTER OF SCIENCE

College of Commerce

KANSAS STATE UNIVERSITY
Manhattan, Kansas

1966

Approved by:


Major Professor

ACKNOWLEDGMENTS

I want to express particular thanks to Mr. Robert Croll. Without his help in obtaining sources of information this paper would not have been possible. Deepest gratitude is extended to Dr. Paul Gilkison who has devoted a great deal of time in advising me on this paper. My thanks also go to Dr. V. F. Ridgeway and Dr. Robert Conover for their assistance and advice.

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INTRODUCTION

The final success of any business is measured in its profitability, and it is the job of the manager to attempt to maximize that profitability. Business men have come to realize that in many cases greater profits can be obtained by selling in foreign countries. Some reasons for this may be decreased competition, demand being in the primary or secondary stage for most products, and the costs of factors of production being less in some areas. All of these factors tend to increase the margin on products sold. In some cases, managers are able to produce out of unused capacity in plants in the United States thus spreading their overhead without incurring large capital expenditures. But in others, managers have decided to build or purchase plants in the countries in which they wish to sell. The reason for this might be that the costs of production and selling would be less in these countries. On the other hand, and this factor will become more important in the future, the government of that country may have forced the manager to produce in that country in order to sell there. No matter what the reason, more and more managers will find it necessary to decide whether or not to produce in a foreign country.

This paper will look at the three most important factors affecting foreign investment in Brazil, particularly American investment, and the role that labor-management problems have played in each. The factors affecting foreign investment in Brazil and other Latin

American countries, in the order of their present importance, are inflation, communism, and for the United States, anti-Yankee feeling and legislation. Communism and anti-Yankee feeling aren't so important in Brazil now as they were before the last revolution and the election of President Branco. But revolutions won't solve the problem of communism; they can only reduce its present importance.

This paper will show that inflation was not a preventive factor in the industrialization of Brazil because of the weakness of the labor movement in that country. It will also point out that the communist inroads in the labor movement in Brazil have come about because of weak management and weak labor. Finally, the paper will show that the increased strength in the labor movement in Brazil has cut off growth through the use of forced savings brought about by the inflationary process.

Brazil was chosen as the country for study in this paper because it may best point up the problems faced by foreign investors in deciding whether or not to invest capital in Latin America. A word of warning is in order here. One cannot directly generalize from the facts presented in this paper to other Latin American countries. Although the overall problems may be similar, the different social conditions, economic conditions, and political conditions will make the solutions different for each country. The factors influencing foreign investment must be analyzed within the social, economic, and political complex of each country. Nevertheless, there are many similarities in the problems faced by the Latin American countries, and Brazil seems to possess them all. Also, Brazil is the richest country in Latin America in terms of

land and natural resources and for this reason should, in the long-run, be the location for the greatest amount of foreign investment in Latin America.

First, the paper will look at inflation; its real role in the Brazilian economy, and the part played by labor in this role. Next, it will look at each part of the labor-management structure to see how it works, why it works, and the role played by communism in that structure. Last, it will examine the communists themselves and see what, if anything, can be done about halting their advance in the labor movement in Brazil.

INFLATION

The Effects of Inflation

There has been a great deal written about the effects of inflation on a developing economy, but more important than the effects are the reasons for inflation in a developing economy. By understanding the reasons for inflation in Brazil, the role labor has played in the growth of the economic sector of Brazil can be better understood. Mr. Gottfried Haberler summed up the reasons for inflation as follows:

Inflation is a consequence of at least three policy errors, which produce their results in developed and underdeveloped countries alike. First is the overexpansion of governmental apparatus, vast bureaucracies and expensive armies which are wasteful and which are unsupportable by the poorer countries. Second are the massive wage increases which are directly ordered by governments or enforced by government-coddled trade unions. Argentine, Chile and Brazil may be cited here.

The third, perhaps most widespread cause of inflation, is the speed with which development is pushed. Impatience to get ahead, or to catch up, is met by the advice of many economists that capital investment is the necessary and sufficient condition for a rapid rise in output and income. So expenditure on capital investment is pushed ahead of the limited supply of capital from saving and imports, the rest of the economy is distorted, and inflation is the consequence--not development.¹

Mr. Haberler went on to explain the disastrous effects of inflation and their impact on development. First, he stated that inflation produces social injustice for relatively fixed-income classes, such as

¹Gottfried Haberler, "The Case for Minimum Intervention," Foreign Aid Reexamined (Washington: Public Affairs Press, 1958), p. 146.

teachers, government officials, bondholders, other creditors, and pensioners. Secular inflation discourages thrift and makes the development of a capital market well-nigh impossible. It drives what savings there are abroad, impedes capital imports, and misdirects the remaining capital available. Open inflation produces excessive investment in inventories. Special problems are created by the existence of controlled and uncontrolled prices in a single economy. Public utility rates, as an example, may be held down by government intervention below the point which allows maintenance and replacement. Last, all efforts to repress inflation lead to increasing interventions, controls, and misdirected expansion of government. Thus the cure produces further inflation, bigger government, less development.²

Labor's Role in Inflation

How does this apply to Brazil and what has been the effect of inflation on growth, appropriation of resources, and so on? Interestingly enough, there are at least two writers, Werner Baer and Isaac Kerstenetzky, who said that inflation has had little effect on the appropriation of resources and has aided in capital accumulation by forced savings. It has been Kerstenetzky's theory that underdeveloped countries could develop faster through deficit government spending which would be paid for by forced savings in the private sector of the economy. Baer in his book, Industrialization and Economic

²Ibid., pp. 146-147.

Development, proved that this was the case in Brazil in the early 1950's. Much can be learned about inflation in Brazil from this study and the results will, no doubt, be applied to conditions in other underdeveloped countries. The appendix at the end of the paper is intended to show this relationship. Much of the importance of the rest of this paper is derived from the conclusions reached by Baer.

Baer was able to show that inflation in Brazil in the 1950's did not impede the growth of the economy. It may have actually provided some benefit by forcing the private sector to save and thus help pay for the deficit spending of the government. He was also able to show that this was done without a significant misappropriation of resources. (See appendix) If inflation did not impede the growth of the economy of Brazil and has not led to a huge misallocation of resources, why is inflation the most important factor today in determining foreign investment? From the study in the appendix, it is clear that the redistributive function of the Brazilian inflation was able to work itself out only because the wage earnings sector was not strong enough to insure the constancy of its share in the national product of the country. This is shown by the lag in minimum wages in the 1950's behind general price increases. Employers in Brazil have tried to pay employees at the minimum wage rate whenever possible. The weakness of the labor sector, shown in the fact that they weren't able to increase wages as fast as prices, was partially due to the stern control the government has had over the labor movement. More will be said about this later in the paper.

Labor's Role Today

The increased power of the labor market since 1961 would tend to show that growth through the inflationary process will not repeat itself in the sixties. Baer stated this as follows:

One could also venture the hypothesis that in a newly industrializing country, with a large reservoir of rural labor, there exists greater possibility of inflationary redistribution. It takes new arrivals from rural areas some time to become relatively sophisticated in the ways of a purely monetary economy and get wise to the significance of general price increases which are larger than wage increases they obtain. However, the much more frequent readjustments of the minimum wage in the period since 1961, the more frequent strikes, and the greater independence of the labor movement from governmental control would seem to indicate that events of the fifties might not be able to repeat themselves.³

This was, as it turned out, the case in Brazil. Mr. William Withers has described how the movement of wages with prices forced up costs for the businessman.

If wages had been pushed up faster than prices, as in Argentina, inflation would have had retarding effects on Brazilian businesses. After 1961, however, the cost of labor began to rise, and businesses suffered seriously from the general disruption caused by the continuation of the inflationary spiral.⁴

All of this happened under the Goulart regime. Goulart became president after the sudden resignation of Janio Quadros in 1960. Mr. Goulart was the head of the labor party and a leftward leaning socialist. This was how Mr. Withers described the presidency of Goulart.

³Werner Baer, Industrialization and Economic Development in Brazil (Homewood, Illinois: Richard R. Irwin, Inc., 1965), pp. 124-125.

⁴William Withers, The Economic Crisis in Latin America (London: Collier-Macmillan Limited, 1964), p. 198.

The subsequent presidency of Goulart was checked by the right wing of the army because of communist leanings. The constitution was amended to establish a parliamentary form of government which gave much of the power to a premier. The new premier, Tancredo Neves, was a complete compromiser, and the Congress which elected him followed conflicting outside pressures. But in the summer of 1962 Neves resigned, and a cabinet crisis followed. President Goulart, by refusing other prospective premiers, finally induced Congress to accept Francisco Brochado ad Rocha, a leftist nationalist who followed Goulart's policies of relaxing austerity and of allowing the capture of the Brazilian labor movement by the communists. A Castro-like revolution thus became a strong possibility. Goulart's government lined itself up with Latin Americans in other nations opposing the Alliance for Progress. In 1962 one of the Brazilian states, Rio Grande do Sul, was allowed to expropriate properties owned by the International Telegraph Company. A wave of anti-Americanism was encouraged. The flow of American capital into Brazil dried up, and a flight of American and other capital began. The struggle against inflation started by Quadros was largely abandoned, until near bankruptcy in foreign short-term credits forced Dantas, Goulart's finance minister, to return to some measure of austerity and plead for American loans.⁵

Withers went on to express the belief that for Brazil to continue to maintain its growth rate it must now rely on domestic savings assisted by foreign capital.

It cannot progress through more inflation because it has carried it to the extreme where domestic saving, through the ploughing-back process, is finally being retarded and offset by the flight of capital. There is no way out for Brazil except domestic saving assisted by foreign capital.⁶

Brazil had cut off foreign investment through partial acceptance of communism, the high rate of inflation, and anti-Yankee feelings. New investment in Brazil by United States businesses dropped from \$218 million in 1959 to \$4.5 million in 1964.⁷

⁵Ibid., pp. 194-195.

⁶Ibid., p. 198.

⁷Ibid., p. 197.

In order for the inflationary spiral to be slowed down and eventually halted, the government would have to cut back its level of spending, and gain complete control over the labor movement so as to control wage increases. This has been what the government has tried to do since the revolution of 1964. There hasn't been enough time yet to tell how well the government will be able to accomplish this goal. Economic conditions, at the present, are so bad in Brazil that it will take some time to see if the government will be able to control prices.

The management sector of Brazil will now be looked at to show why this sector of Brazil has been weak and thus has not been a counterforce against the growth of the Communist Party in the labor sector.

MANAGEMENT

Management in the private sector of Brazil has largely been a family affair. Huge family fortunes have been built-up during the early industrialization and in this way Brazil parallels the early industrialization of the United States. Mr. Claude McMillan, in his article on "Industrial Leaders in Latin America," has compared the North American manager with the Brazilian.¹ Some insights into the thinking of the Brazilian manager can be gained from this comparison.

Comparison Between Managers

The United States manager has come from a society which doesn't have a distinctive owner-manager class or ruling class. The Brazilian manager has come from a completely different social class than that of the North American. The latter has been a member of the elite social and economic class and he knew it. For example, an executive in the United States managing five thousand employees may have earned five times the income of the average American family after taxes. The Brazilian owner-manager might have enjoyed an income twenty to thirty times that of the average industrial worker, but the industrial worker has been much better off than the average Brazilian breadwinner.

The threat of competition probably has inspired most of the anti-foreign feeling among Brazil's industrialists, but the industrialists

¹Claude McMillan, "Industrial Leaders in Latin America," Industrialization and Economic Change (Gainsville: University of Florida Press, 1965), pp. 71-86.

have kept these feelings mostly to themselves. Even the most hostile Brazilian industrial leader has recognized that an attack on foreign enterprise would be an attack on enterprise itself, and his own interests would be poorly served by the upheavals these attacks generated. Nevertheless, these conflicts have shown up intermittently. Part of the friction has existed because few businessmen from the United States have bothered to learn to speak Portuguese well. Although most have learned to carry on a conversation, few will speak the language when conducting serious business.

The North Americans have attached more importance to written contracts than have Brazilians. Brazilian managers have viewed the written agreement as an expression of intent at the time the agreement was made; the intent deteriorating in value and applicability with time. The United States executive has preferred to get right down to business in negotiations and his lack of amenities has not been shared by the Latins. However, due to economic reasons, United States executives have learned to adapt with some degree of effectiveness to the differences in culture.

Because of the cultural heritage of the Brazilians, there has been a strong paternalistic and patriarchal quality to Brazilian management leadership. This has been reflected in employee-employer relationships.

The Brazilian leader doesn't invite middle management to participate in decision making. He is highly suspicious of merit rating and wage system in which reward is tied to measurable output. Nor does he vigorously emphasize training, development, and upgrading, which enable the worker to pass from a lower to a higher status. As an economic decision maker, he

views labor as having a fixed capacity to produce. He feels that total labor costs are minimized by paying the lowest possible wage, which is usually the legal minimum wage. If output is insufficient, one simply hires more workers at the minimum rate.²

The United States executive has been more selective in hiring a new employee than the Brazilian and has been less likely to tolerate substandard performance. As the Brazilian regarded the employee as a ward, he was less likely to let the employee go when qualifications were not adequate or usefulness was finished. The North Americans have been more inventive and have provided good working conditions and opportunities for training, development, and advancement. He has treated the employee with respect and dignity, paying him well. This doesn't mean that Brazilian employees have been happy working for foreigners. Working for a North American has been viewed as being a lackey of the Yankees and has borne a powerful stigma.

As will be brought out in greater detail later in the paper, the labor unions in Brazil have been weak because of government controls. Also, unions have been heavily infiltrated with communist sympathizers so that what union activity that existed has been largely political rather than economical. As a result, little collective bargaining has been done in Brazil. Union leaders have been loath to sit down with management at the bargaining table and discuss problems of mutual concern, preferring instead to go to the press. For this reason communication between manager and worker has been largely cut off, and the United States manager has been less aware of the state of

²Ibid., p. 37.

mind of his employees than he would be if he managed in the United States.

Middle Management

Both ownership and management of Brazilian industry has, in the past, been a family affair. While close family control was needed at first because there wasn't a management sector upon which the Brazilian owner could draw, it has held back the development of this sector. The extent to which family control has been practiced is pointed out by the following statements:

Nepotism and family ties still serve as key factors in staffing decisions throughout much of Latin America, even in large private firms.³

The family idea here is strong, you get a young fellow with ability and he works hard expecting to get ahead and then along comes the 20 year old son of the owner and he's the boss. It discourages people who are not relatives. Of course, it's pretty important to have close family control at the top because you need absolute loyalty. No one in Brazil considers it dishonest to cheat the government. But to cheat you need close family type management and control. You can not afford to let outsiders in. You have to keep management in the family.⁴

So there has existed a situation where close family control has helped to keep middle management from developing. There have been a couple of other reasons for the tight family control in Brazil as pointed out by the following statement on anti-trust legislation.

³Richard N. Farmer and Barry M. Richman, Comparative Management and Economic Progress (Homewood, Illinois: Richard D. Irwin, Inc., 1965), p. 169.

⁴W. O. Oberg, "Cross Cultural Perspective on Management Principles," Journal of the Academy of Management, Vol. VI, No. 2 (June, 1963), pp. 135-136.

In Brazil an agreement among businessmen designed to prevent or reduce competition may be considered a criminal offense if it is managed for the purpose of obtaining an arbitrary increase in profits.⁵

Another reason for the need for close control has been that the Constitution of Brazil has had a provision for profit sharing on the part of the worker. Heare and Frohlich explained this as follows:

The Constitutional provisions with regard to labor include the precept that legislation shall provide for obligatory and direct participation of the worker in the profits of concerns, on the terms and in the manner provided by laws. Bills governing profit-sharing have been considered by Congress but none as yet has been enacted.⁶

While no bills have passed Congress on this subject, they have been considered. A firm would need the loyalty of its managers so as to keep labor and the government guessing as to the exact level of profits if such a bill were ever passed. Without professional management, this loyalty couldn't be assured.

With middle management being passed up for higher positions so as to maintain tight family control, there is little wonder that management in Brazil has been scarce. Mr. McMillan in the same article on the industrial leaders of Latin America made some generalizations about the middle manager. He stated that the middle manager comes from the middle class which he estimated to account for about 15 percent of the Brazilian population.⁷ This middle class has been insecure and

⁵Wendell C. Gordon, The Political Economy of Latin America (New York: Columbia University Press, 1965), p. 68.

⁶Gertrude Heare and William Frohlich, "Establishing a Business in Brazil," Overseas Business Reports, OBR 63-149 (December, 1963), p. 16.

⁷McMillan, op. cit., pp. 29-31.

volatile. It has harbored feelings that respectability was associated with land ownership rather than with commerce. This member may have run the technical and professional affairs of business and government, but his roots have remained in the soil. The middle manager has been a part of this social class, but has left politics to the other members of the class--the professionals, the intellectuals, the civil servants, and the labor leaders. Mr. McMillan gave these three points as the middle manager's position on business and industry.

(1) He demands government protection from competition, particularly foreign. (2) He expects direct or indirect government subsidy. (3) He does not oppose government ownership or management of industry.⁸

This attitude has been a result of a long tradition of heavy government protection in industry through import tariffs. This tariff protection has not been unique to Latin America, but in Latin America protection has bred dependence on the government. Lacking adequate domestic competition, industry has not achieved competitive efficiency.

Management Training

The answer to the problem of a lack of managers would seem to be that foreign investors should staff their companies with their own managers. This, of course, has been done to some extent, but limitations have been put on aliens by the Brazilian government. Heare and Frohlich explain these limitations in the following statements:

⁸Ibid., p. 31.

Foreigners may be employed in Brazil only if they have obtained permanent visas to enter the country or have been granted special visas as contract employees to remain in Brazil for the length of the contract.

To obtain a permanent visa a United States citizen must apply to a Brazilian consular office in the United States. Upon his arrival in Brazil he must register immediately with the police in the locality in which he intends to reside and must obtain an identity card. Employers are not permitted to engage aliens locally who do not have permanent status and whose documents are not in order.

A temporary or temporary special visa may be granted to scientists, teachers, lecturers, sportsmen, artists, persons under contract, businessmen, and commercial travelers. Persons under contract may exercise their professions in Brazil as outlined in the section, Nationality Restrictions. However, they may not practice their professions for the general public...

Two-thirds of all employees of commercial and industrial firms must be Brazilians and two-thirds of the entire pay roll must be paid to Brazilians.⁹

If the number of foreign managers has been limited by law, why haven't foreign capitalists hired men out of college and trained their own as has been the case in the United States? First of all, the elaborate management training programs that are so common in the United States have been unknown in Brazil. The only school of business administration in Brazil was started with the help of a group of United States professors in Sao Paulo. The young manager has been largely trained by experience. The lack of good, or in this case any, training for management is pointed out in the statements below which were made by Brazilian businessmen.

Our businessmen have had no training. In many cases a man gets to be director because he's the only man available, not because he's well qualified or the best man for the job.

⁹Heare and Frohlich, op. cit., p. 15.

We can't get good management trainees. The universities don't produce them. We tried to get good men from the university. They haven't worked out. The people who are managers have all started as clerks.

We need to decentralize but we can't. We don't have any people to give the responsibility to.¹⁰

There have been few schools in Brazil that would produce businessmen and there have been few people, qualified for college, that would enter the profession if training had been available. This has been true of young people in all of Latin America not just those in Brazil. William Stokes in his article, "The Drag of the Pensadores," has stated that the intellectuals of Latin America haven't wanted to become businessmen or go into any profession that has had anything to do with manual labor.¹¹ The reason for this has stemmed not only from the characteristics of the university system, but also from the feeling of Latin Americans toward education itself. Higher education has been considered to be the maximum status in any community. When the university system was first started in Latin America the only people that could afford to get an education were the wealthy. Therefore, among the rich and the landholders, education was, and is, regarded as an important status symbol. As all the people in Latin America have aspired to obtain the wealth needed so that they wouldn't have to work, a degree from a university has been an indication that they have reached that status.

¹⁰Oberg, op. cit., p. 106.

¹¹William Stokes, "The Drag of the Pensadores," Foreign Aid Reexamined (Washington: Public Affairs Press, 1958), pp. 56-85.

Learning has been regarded as a value in itself, and therefore the courses offered in the universities have tended to be theoretical, non-empirical, and non-utilitarian. The wealthy in the past sought education only for the social status it would bring them and not for the knowledge or training that could be used to increase their wealth or power.

Today as in the past, symbols of education are still passionately sought and the service to the community which these titles should guarantee is largely avoided. Mr. Stokes puts it in this manner: "Almost everyone wants to be a doctor who does not practice, a doctor of pharmacy who does not mix prescriptions, a doctor of engineering who does not build, even a doctor of veterinary science who does not personally inject the diseased animal with the medicine it needs."¹²

Law, medicine, and engineering have been the three most sought after degrees. Of the three, only engineering could help Brazil by providing the technical skills needed for industrialization, but the engineers have been unable to because they have possessed only theoretical knowledge. Law has been the most commonly sought after degree; there being over thirty schools of law in Brazil. A student could usually obtain a doctorate in Brazil after the fifth year, and in doing so rarely has had to do any original research.¹³

As was mentioned before, manual labor and technical activity have had low social status. The highest status has belonged to those

¹²Ibid., p. 70.

¹³Ibid., p. 73.

who have lived in ostentation without labor of any kind. Professions which have been obviously disassociated from manual productive labor have had the highest status among the workers. Some of these jobs have been top level bureaucrat, lawyer, poet, priest, and general. Government employment has been widely sought. There hasn't been any incentive for people that have been the best educated to use their brains and hands in productive areas. For this reason there hasn't been a great rush of people to enter the business administration field or other fields from which technical management could be drawn.

In summary, we can say that the Brazilian manager has not been the professional that his counterpart in the United States has been. The tightly held corporations have restricted the number of managers which a growing industrial economy needs to ensure the most economical allocation of resources. Also, businesses haven't been able to import all the managers needed because of government restrictions, and they haven't been able to find young Brazilian students to train because there haven't been any in the business administration field. College graduates haven't wanted to become managers.

Social conditions and the attitudes, opinions, assumptions, and motives of individuals which go hand-in-hand with these conditions change very slowly. People in Brazil are not going to want to become businessmen, nor are existing businessmen in Brazil going to become professionals over night. The accomplishment of both events will probably move fairly closely with the industrialization of Brazil. Greater industrialization will force the Brazilian manager to become a professional or to cease to exist as a businessman. With more

industrialization will come greater competition which will help force managerial control out of the hands of a few family relatives. This will, in turn, bring about greater opportunities for young men in the field of business.

Neither of these events are likely to take place in the near future, but will require time enough for an evolutionary change in the social structure. Foreign investors will probably have to continue to send what people they can to Brazil to act as managers. These men still will have to train their middle managers on the job. The lack of effective management will be just another expense in doing business in Brazil.

The greatest cost of this lack of good management has been in the area of poor labor relations. The results of this ineptness will be pointed out in the section on labor laws and collective bargaining. The paper will now look at the laborer to see the extent to which he is qualified to work in an industrialized economy, and the effect that industrialization has had on him.

THE WORKER

Economic State of the Worker

The Brazilian worker, for the most part, has been miserably poor, having benefitted little from industrialization. He has been exploited for centuries by his leaders so that poverty has been nothing new, but it should not be surprising that he would turn to the communists or any other organization for help if they could show some promise of a better life. A quotation by Peter Nehemkis clearly points out the situation.

We know that this development of which we are so proud has brought about no change at all in the living conditions of three-fourths of the country's population. Its main feature has been a growing concentration of income, both socially and geographically. The large mass of people who toil in the fields and constitute the majority of the Brazilian population have reaped no benefit. Worse than that, the masses have witnessed a relative decline in their standard of living as compared to those engaged in commerce and other services. As for the industrial workers, who represent a sort of middle class in the Brazilian social framework, they have grown both in absolute and relative terms, without having improved their standard of living to any large extent. They, too, have suffered a relative worsening of their economic position as compared to higher income groups employed in urban services.¹

Further explanation of the extent of the poverty is seen in these statements by Alexander and Withers.

¹Peter Nehemkis, Latin America, Myth and Reality (New York: Alfred A. Knope, 1964), p. 198.

The favellows of Rio de Janeiro are among the most depressing slums to be found anywhere... As a result of his poverty, the Brazilian worker suffers from undernourishment.²

In 1953, per capita income, according to Kindleberger, was only \$215 per year. More recent estimates have set the current per capita income at \$250 per year. But this is an average for the country. In the poverty-stricken northeast, incomes are as low as \$50 a year... Prices have increased 600 per cent from 1948 to 1959... In some months during these years of inflation, prices increased 5-10 per cent and a 50 per cent annual price rise has been regarded as below normal. Wages have normally lagged 15 percent behind prices, and inflation has amounted to a 15 per cent sales tax on labor each year.³

This still hasn't given the true picture of the income of the masses. The tax system in Brazil has been mostly regressive in nature, and in this way has put the burden of supporting the government on the shoulders of those least able to do so. From Table 16 in the appendix it can be seen that three-fourths of the tax revenues in Brazil come from indirect taxes which put the greatest burden of payment on the lower classes.

Worker Education and Productivity

The laborer of Brazil has been uneducated and not qualified for most industrial work. For this reason, much of management's time must be spent trying to fit the right man to the job. The following quotations show the extent of illiteracy and what has been some of its effects:

²Robert J. Alexander, Labor Relations in Argentina, Brazil and Chile (New York: McGraw-Hill Book Co., Inc., 1962), p. 49.

³William Withers, The Economic Crisis in Latin America (London: Collier-Macmillan Limited, 1964), p. 198.

The state of Rio Grande do Sul boasts the highest literacy rate in Brazil; yet one-third of its adult citizens cannot read or write, and there is a great lack of good, compulsory primary education. Only 18% of the inhabitants of this state have finished four grades of primary school. (The figures for high school and university are 2.5% and 0.5% respectively).⁴

Although the literacy has improved significantly in the post-war period, probably fewer than 50 per cent of the population over 5 years of age can read or write. The rate varies among the geographic regions, depending mainly upon the degree of urbanization...

Primary education for children 7 to 12 years of age is free and compulsory. However, schooling is frequently poor or not available, especially in sparsely populated areas.⁵

Here was how businessmen in Brazil in a survey made by Oberg felt about the education problem.

The basic problem in Brazil is the weakness of primary education. It is difficult to get good help. Workers are willing and intelligent, but they have had only four years of schooling and they can't do simple arithmetic problems.

One big problem is the low quality of primary schools in Brazil. Workers can't understand technical orders.

We can buy machinery easier than we can get good men to run machinery. It takes up to two years to train a good lathe man. There is a real shortage of good technical people in the shop and office.

We have to train our mechanics. We can't hire any. Then we have the problem that when you train a man you often lose him. Other companies hire him away from you after you've spent the time and money to train him.⁶

⁴Richard N. Farmer and Barry M. Richman, Comparative Management and Economic Progress (Homewood, Illinois: Richard D. Irwin, Inc., 1965), pp. 76-77.

⁵U. S. Department of Labor, "Labor in Brazil," RLS Report No. 191 (January, 1962), p. 27.

⁶W. Oberg, "Cross Cultural Perspectives on Management Principles," Journal of the Academy of Management, Vol. VI, No. 2 (June, 1963), pp. 76-77.

Part of the reason for the inadequacy in the primary education system has stemmed from the fact that few qualified teachers have wanted to teach at this level. The main reason though has been the lack of funds available for primary education. Claude McMillan has put it in this way. "Sixty per cent of all the expenditures for education each year goes for the education of some 80,000 Brazilians in university-level institutions; 30 per cent goes for about 800,000 who never go beyond the secondary level; and 10 per cent goes for five million that complete elementary school only."⁷

Table 1 shows the severe lag in the country's educational system relative to economic growth of the country. Part A of the table gives an estimate of the educational level of people occupied in various economic sectors. It can be seen that in the tertiary sector only 30 per cent of the men and 45 per cent of the women have finished primary education. Part B in the table shows the rate of growth of people graduating from the various levels of education in the nineteen fifties. At each level of education the rate of growth has been below the rate of population growth of 3.6 per cent during the period. Part C shows the breakdown of expenditures of the federal government for education. Notice the small percentage that has gone for primary education. From 1950 to 1960 the amount of the federal budget spent on education dropped from 9.5 to 6.1 per cent of the total budget.⁸

⁷ Claude McMillan, "Industrial Leaders in Latin America," Industrialization and Economic Change (Gainesville: University of Florida Press, 1965), p. 84.

⁸ Werner Baer, Industrialization and Economic Development in Brazil (Homewood, Illinois: Richard R. Irwin, Inc., 1965), p. 188.

TABLE 1

Imbalances and Bottlenecks in the Brazilian Economy

A. Educational Level of Population in Main Sectors of Economic Activity, 1962.

Percent of People Employed Having Finished the Following Education Levels

Sectors	Primary		Secondary		Higher Education	
	Men	Women	Men	Women	Men	Women
Primary.....	5.0%	4.0%	0.1%	--	--	--
Secondary.....	20.3	39.1	4.2	2.6%	0.9%	--
Tertiary.....	30.0	45.0	16.0	25.0	8.0	5.0%

Source: Paulo de Assis Ribeiro, *op. cit.*, p. 89. This is based on an estimated work force of 20.9 million men and 3.6 million women.

B. Yearly Rate of Growth of Number of Students Graduating (In Period 1950-60)

	Rate of Growth	Absolute Numbers	
		1950	1960
<u>Higher Education</u>			
Agronomists.....	6.9%	171	332
Engineers.....	4.9	961	1,550
Medicine.....	3.7	1,070	1,540
<u>Secondary schools*</u>	7.2	60,048	120,125
<u>Commercial schools</u>	6.1	16,457	29,734
<u>Industrial schools</u>	2.5	2,825	3,624
<u>Teacher's training schools</u>	8.4	10,114	22,714
<u>Agricultural schools</u>	11.4	613	1,796
<u>Primary schools</u>	2.6		
Students matriculating in primary schools...	3.6		
Teaching staff of primary schools.....	5.1		

*University preparatory

Source: Anuario Estatístico

C. Expenditures on Education in 1960 (In Millions of Cr\$)

Federal.....15,359	<u>Federal Breakdown</u>	
States.....32,158	Primary education.....	1,520
Municipal.....4,392	Secondary education.....	3,905
Total.....51,909	Higher education.....	8,111
	Other.....	1,823
	Total.....	15,359

Source: Special data made available to author by the Ministry of Education.

Source: Werner Baer, Industrialization and Economic Development (Homewood, Illinois: Richard D. Irwin, 1965).

Low educational levels, the high rate of illiteracy, and the lack of technical training have seriously limited the expansion of the skilled labor force and consequently hampered the economic development of the country. The National Economic Council of Brazil estimated that 80 per cent of the wage earners in Brazil were unskilled, while 16 per cent are skilled. The other four per cent were Armed Forces, clerical and administrative personnel, and professional workers.⁹

The lack of training among the unskilled has made them undisciplined in industrial procedures, and they have rebelled by moving from job to job as opportunities develop. This is further reiterated in the following statement:

Brazil appears to have a high labor turnover rate. The lack of industrial discipline among the unskilled and the practice of dismissing workers a few years before they have acquired legal seniority status are among the more important factors which result in high turnover. Absenteeism is also a major problem in many types of activities.¹⁰

Worker Training

Brazilian management has recognized the need for trained people and has acted to try to reduce this lack of skilled workers. Most of this work has been done through the SENAI organization or government training programs. These programs have worked as follows:

⁹Oberg, op. cit., pp. 76-77.

¹⁰U. S. Department of Labor, "Labor in Brazil," BLS Report 191 (January, 1962), p. 12.

Full-time vocational training for industrial work is provided as part of the educational system, under the direction of the Ministry of Education and Culture, which offers three types of courses: a 4-year industrial course in subjects such as electronics, printing, industrial arts, and metal trades; a 3-year technical course in subjects such as mechanical engineering and draftsmanship; and a 2-year master craftsman course including a variety of subjects.

Part-time and full-time vocational training for industrial trades is provided by the National Industrial Apprenticeship Service (SENAI), which is administered by the overall organization of employer federations (The National Confederation of Industry), and financed by a 1.5 percent tax on total payroll. Employers are required to hire and train some apprentices through SENAI for skilled occupations, and to train some young people for every type of occupation in the establishment. The minimum number in the former group must be 5 percent of total employment and in the latter may vary, but need not exceed 3 percent.

For young people, SENAI offers four types of courses: compulsory courses for young workers, aged 14 to 18, who are apprentices in the skilled trades in such fields as machine tool operation and electrical, radio, and foundry work; accelerated 5-month training programs in the evening for youths over age 16 with no previous vocational training; prevocational courses for worker's sons 12 to 14 years of age, who have finished primary education but are too young to go to work; and vocational courses for employed children 14 to 18 years of age, nonapprenticed, for a period of 20 to 30 months. The law requires the employer to pay the young employees during the training period, provided they follow the vocational training program. Sometimes these programs include preliminary training over a 5-month period to complete the general education of the young worker who has not finished primary school.

SENAI offers vocational training for adults, usually in evening classes, over a 5-month period. SENAI has also provided some training for instructors and foremen through summer school sessions.

The SENAI program is well known throughout Latin America. During its 18 years of operation, it has added materially to the number of skilled and semiskilled workers in Brazil, but has not been able to supply enough trained industrial workers to meet the demands.¹¹

The SENAI program has been an exceptionally good program, but has been able to handle only 40 to 50 thousand students at a time, a

¹¹Ibid., p. 13.

fairly tiny fraction of the labor force.¹² Companies could partly solve the problem of lack of skilled workers by bringing in workers from abroad. They have been limited in this, however, by the immigration laws which have been previously mentioned, and by the additional fact that discrimination in pay between persons doing the same work has been illegal. Heare and Frolich stated:

...if a Brazilian and a foreigner perform similar duties, the Brazilian may not receive remuneration less than that given the foreigner unless certain circumstances act to increase the pay received by the foreigner. Government control is effected by requiring an annual report of all employees, indicating their positions or duties.¹³

In most cases, skilled workers would have to be paid more than the going wage rate in Brazil in order to entice them to come to Brazil. But the Brazilian industrialist has not been allowed to do this unless he has been willing to pay the same wage to Brazilian workers who have been performing similar duties. Thus a manager can either not bring in skilled workers from other countries or raise the wage scale for the already employed Brazilian workers.

Since the revolution of April, 1964, the government has kept a close eye on the needs of management. If management were to push for more funds for primary or secondary education, they could probably win their point. The real problem would be to find the funds to pay for this increased spending for education. Inflation in Brazil won't be

¹²Baer, op. cit., p. 97.

¹³Gertrude Heare and William Frohlich, "Establishing a Business in Brazil," OBR 63-149 (December, 1963), p. 15.

slowed down by more government deficit spending. Business itself probably would have to bear the greatest burden for providing funds for education. There might be some reluctance on the part of businessmen to pay increased taxes for workers who wouldn't be eligible for the work force for from 6 to 9 years. Businessmen will probably want to invest their profits in something that will show quicker results. The fact remains that educating and training factory workers will remain just another cost of doing business in Brazil.

Characteristics of the Worker

Although the average Brazilian worker has remained illiterate and lacked training, he has also been ambitious, hard working, and for the most part docile and tolerant. All of these characteristics, along with having been exploited for generations, have made the Brazilian worker a prime target for the communists. The worker has wanted to get ahead but couldn't because of lack of education and/or training. His ambition has made him move from job to job as better opportunities have arisen. At the very least, the Brazilian Communist Party has been able to promise the worker better pay than he was receiving; and, so far the party has been able to produce results. With the crack-down on the communists after the revolution, the advantages of joining the communist party or of joining a communist controlled labor party were now sorely limited. But the fact remains, if the communists were able to get control of the government, the worker's docility would probably prevent him from ever throwing the communists out, and a Castro-like regime would be possible.

The docility of the Brazilian has stemmed from his ancestry. Most

workers have been descendents of slaves, serfs, or poor immigrants. These people have had to look to the land-owning patron for their very existence. As a result, the patron has become a father image, something the people can lean on. Getulio Vargas was able to transfer this father image to the state by the use of social security legislation and labor laws that were designed to benefit the worker. Vargas was able to play strongly on the father-state ties and at the same time keep strict control over the unions. The way this was done will be explained in the next chapter.

One of the results of the father-state idealization has been the moving of some of the best workers from industry into government and teaching professions. This, in turn, has held down the number of skilled workers.

LABOR LEGISLATION

Some of the labor laws and the effect they have had on drawing the worker to the state rather than to the unions will now be examined. Then the social security system with all of its faults and what it really has done for the worker will be discussed.

Labor Laws

From 1931 to 1945 many labor laws were passed by the Vargas regime so as to hold the loyalty of the worker to the state. These included:

...minimum wage legislation, which went into effect for the first time in 1941, and the development of the social security system which, creaking and bureaucratic though it was, brought health protection to worker, and established retirement pensions.¹

Minimum wage has worked somewhat differently in Brazil than in the United States, and since 1960 it has played some role in increasing inflation. The law is described below.

Legal minimum wage rates are fixed from time to time by the Federal Government. The minimum scale now in effect was established by decree-law No. 51,613 of December 3, 1962, and became effective on January 1, 1963. Because of the inflationary situation in Brazil, the legal minimum scale has been revised annually in recent years. Pressure for a semi-annual revision has been reported.

The minimum monthly wage rates provided by law vary according to the geographical region of the country. The highest prevail

¹Richard N. Farmer and Barry M. Richman, Comparative Management and Economic Progress (Homewood, Illinois: Richard D. Irwin, Inc., 1965), p. 86.

in the Rio de Janeiro--Sao Paul--Belo Horizonte area, with rates in the extreme south and in the Amazon region somewhat lower and in the northeast generally on a further descending scale. The range is from 9,000 to 12,000 cruzeiros per month. The minimum wage for apprentices under 18 years of age is 50 percent of the minimum for adults.²

Minimum rates are based on cost of living studies and recommendations, submitted to the President by the State and Territorial Minimum Wage Commissions, with any amendments that the Minister of Labor and Social Security may make. Zones and sub-zones may be established within these larger regions so that differences in standards of living may be taken into account in setting minimum wages.³

In most countries provisions for raising the "minima" with the passage of time have been more or less formalized. Generally, this can be done by executive decree. It does not require congressional action as it does in the United States.

In Brazil, for example, the minimum in Rio de Janeiro in 1962 was 21,000 cruzeiros a month (something like \$40). As a result of inflation and other pressures, the figure had been raised to 42,000 by 1964.⁴

In addition to the minimum wage, employers have had to pay a so-called "thirteenth month salary bonus" each year to all employees. This was Law No. 4,090 made on July 13, 1962 which provided:

...that in December of each year, the employer will pay to each employee a bonus equal to one-twelfth of his monthly salary, for each month of employment during the year. For purposes of the computation, employment of 15 days or more in a month is considered a full month.⁵

²Gertrude Heare and William Frohlich, "Establishing a Business in Brazil," Overseas Business Reports, OBR 63-149 (December, 1963), p. 16.

³U. S. Department of Labor, "Labor in Brazil," BLS Report 191 (January, 1962), p. 15.

⁴Wendell C. Gordon, The Political Economy of Latin America (New York: Columbia Press, 1965), p. 68.

⁵Heare and Frohlich, op. cit., p. 16.

The normal working hours for commercial and industrial establishments have been fixed by the government at 8 hours per day and 48 hours per week. Overtime in most occupations must be paid at the rate of time and a fifth, and there have been certain restrictions existing as to the amount of overtime permitted. For work on holidays, a special permit must be obtained from the Ministry of Labor. Brazil has many more holidays than the United States. For example, Independence Day is celebrated for a full week.

The Brazilian employee has also been entitled to other benefits as described below.

The Constitution contains the precept that employees are entitled to a remunerated weekly day of rest, preferably Sunday, and to remuneration for civil and religious holidays. Law No. 605 of January 5, 1949, put this provision into effect. Employers are required to pay day laborers for a weekly day of rest. Employees paid on a semimonthly or monthly basis are not affected, provided the employers deduct for absences on a 30-day basis.

After 1 year's employment a worker is entitled to a paid vacation of 20 working days. Provision for a shorter period of vacation is made for those who have worked less than a year or who have been absent without sufficient justification for a certain number of working days. If an employee is not granted a vacation with full pay, he is entitled to double pay for the non-granted vacation.⁶

There has also been a part of the Constitution regulating employment of minors and women. Heare and Frolich's description of this follows:

The Constitution prohibits minors under 14 years of age from working, and the employment of those between ages 14 and 18 is subject to various conditions. Minors may be employed only when they hold an identity card issued by the Ministry of Labor; work

⁶Ibid., p. 16.

between the ours of 10 p.m. and 5 a.m. is prohibited; certain types of work, such as the handling of noxious chemicals and explosives, work in excessively hot, cold, or damp atmospheres, or involving the cleaning of machinery in motion, may not be undertaken; and employers must allow minors time off to attend classes.

Legislation regulating the employment of women prohibits work between the hours of 10 p.m. and 5 a.m. in most occupations, as well as work in dangerous or unhealthful occupations. No work may be performed for a period of 6 weeks before and after childbirth and during this period the employee has a right to receive full pay. In the case of miscarriage, she is entitled to 2 weeks' rest with full pay. If a woman is nursing her child, she has the right to two special daily periods of rest from work during the first 6 months following childbirth. If more than 30 women work in an establishment located in a place where there are no day nurseries for accommodation of the babies of employed mothers, the competent authorities may in their judgment require the establishment to provide a place where women may leave, during working hours, children who are being nursed.⁷

This part of the constitution hasn't been too important as the women's place has been in the home in Brazil. Minors have been hired, but mostly for training under SENAI.

Not only has it been expensive to hire a person in Brazil, the constitution has made it expensive to fire them. In specific circumstances employees have been entitled to dismissal pay as explained below:

This is payable at the rate of 1 month's wages for each year (or fraction over 6 months) of service performed up to 9½ years. After 10 years of service, the worker acquires permanent status and may not be dismissed except for a serious offense, or force majeure, that is, circumstances adversely affecting the business and over which the employer has no control, both duly proven. If a concern goes out of business for reasons other than force majeure, the employer must pay all employees with 10 or more years of service severance pay amounting to 2 month's pay for every year of service. Workers are frequently dismissed, it is often stated, with their accumulated terminal pay, after as much as 7 or 8 years' service.

⁷U. S. Department of Labor, op. cit., p. 32.

If such reports are true, the miscarriage of a law intended to guarantee the worker's right of tenure and to protect him against unjust dismissal, especially in his later life, thus works to his disadvantage. The employer is likewise adversely affected in the long run since the resulting high rate of labor turnover adds to labor costs and also seriously retards the acquisition of highly developed industrial skills by the labor force.

The law requires, under penalty provisions, that employers and employees give notice if either wants to terminate the employment relationship. Although notice must be given, an indemnity is not payable to an employee if he has less than 1 year of service or if he is working under contract for a specified term.⁸

Although no study was found on the number of employees having tenure, all texts agreed that it has been a factor in increasing the labor turnover and increasing labor costs. "...in an industrializing society such rapid turnover is quite costly in terms of loss of skill, work-in requirements of new workers, etc."⁹ It should be mentioned that the above laws would cover only about 40 percent of the working population.

The difference between Brazilian labor laws and labor laws in the United States might be expressed by the fact that benefits such as pay on holidays, vacation time and work bonuses, which would be covered by collective bargaining in the United States, have been guaranteed the Brazilian by law. The tenure law seems to be completely unworkable and should be taken off the books. No information has been found to indicate whether bills to repeal this law have been brought before the Brazilian Congress either before or after the revolution.

⁸Werner Baer, Industrialization and Economic Development in Brazil (Homewood, Illinois: Richard D. Irwin, Inc., 1965), p. 97.

⁹U. S. Department of Labor, op. cit., p. 33.

Social Welfare Legislation

In 1963 there were nearly four million workers insured by Brazil's seven National Social Security Institutes, which have been under the supervision of the Ministry of Labor and Social Security. The seven institutes are as follows: (1) The Industrial Workers' Retirement and Pension Fund; (2) The Commercial Workers' Retirement and Pension Fund; (3) The Transportation and Cargo Workers' Retirement and Pension Institute; (4) The Maritime Workers' Retirement and Pension Institute; (5) The Railway and Public Utility Workers' Retirement and Pension Institute; (6) The Bank Workers' Retirement and Pension Institute; (7) The Government Workers' Social Security and Assistance Institute. In addition to this, the families of insured workers have been eligible for certain benefits. The benefits under the Social Security Act of 1960 are uniform for all Institutes. The U. S. Department of Law relates the following benefits:

Old-Age Pension. At age 55 with 35 years of service, any employee may retire and receive monthly an amount equal to the full amount of his average monthly wage during the 12 months prior to retirement. At age 55 with 30 years of service, an employee may retire with 80 percent of his average monthly wage. At age 65, with less than 30 years of service, an employee may retire with 70 percent of his average pay during the last 12 months of employment. In order to encourage continuation on the job after fulfilling the age and service requirements, workers may draw 25 percent of their pensions in addition to their wages, during additional years of employment.

Survivor's Pension. Widows of pensioners receive 50 percent of the amount of the pension, plus 10 percent for each male child under 18 and for each unmarried daughter regardless of age, up to a limit of 100 percent of the pension.

Assistance During Illness. Employers are responsible for continuing worker's full wage payments during the first 2 weeks of illness. Thereafter, the social security agency pays benefits equal to 70 percent of the regular wage, plus additional increments based on length of service in insured employment. To be eligible for sickness benefits, a worker must have been a contributor to an Institute for at least 1 year.

Disability Pension. When a worker is permanently incapacitated for employment, he receives a pension equal to 70 percent of his former wage. The Institutes are directed to establish vocational rehabilitation courses for the benefit of workers who have become disabled for their usual occupations but who may be able to do other work upon receiving training.

Maternity Benefit. This type of Benefit is paid to an insured worker when his wife gives birth to a child or, in the case of a woman worker, directly to her. Under the 1960 Act, the amount is a lump sum equal to twice the legal monthly minimum wage payable at the place of employment of the insured worker. In localities in which hospitalization is available to the families of the insured, and the cost of maternity hospitalization is borne by the Institute, only the minimum wage amount for 1 month is granted.

Burial Benefit. This type of Benefit is paid to the spouse of an insured worker when he dies, or to whoever takes charge of burial arrangements, and is equal to twice the legal monthly minimum wage.

Workmen's Compensation. Business firms are required by law to carry insurance against the risk of damage claims by injured workmen. Such insurance may be purchased through private insurance companies, which are the primary insurers, or through the Social Security Institutes. Compensation paid by an employer to an injured workman is separate from the disability payments and medical assistance he receives under the Social Insurance program.

Other Programs. All of the Social Security Institutes contribute toward the cost of two other social security agencies which are likewise operated by tripartite boards. One...to which each Institute allocates 5 percent of its total revenue from employer and employee contributions, plus a share of its income from other sources was established to develop distribution facilities for lower cost food. It has opened several supermarkets in some of the large industrial cities, provided low-cost meals to workers in factories, and operated low-cost restaurants. The other... provides ambulance service and first aid treatment, mainly in Rio de Janeiro and Sao Paulo, to workers at home or at their jobs.¹⁰

¹⁰Ibid., p. 33.

There have been several major weaknesses in the Brazilian social security system. First, the fact that there have been seven social security systems instead of one has led to a duplication of functions which has increased the overhead and operating costs. Another weakness in the system has been the fact that the funds have come from tripartite contributions by the workers, the employers, and the government. The government has been particularly lax in paying its share, and usually has paid only when there has been a crisis in the system. The government, however, hasn't been the only delinquent party. Alexander stated that some social security officials have claimed that some employers deduct workers' contributions, but do not pass them on.¹¹

Since the revolution the army has demanded that the private businesses pay all of their taxes. Because private enterprise owed the army for its very existence, private businesses have probably complied with the demand. There wasn't any information available upon which a speculation could be made on how long they will continue to do so.

Many workers have complained about the red-tape necessary to get the benefits to which they are entitled. Also, there have been complaints about political interference in the administration of the funds. Whenever there has been a change in the Ministry of Labor there usually has been a change in the administration of the social security funds. It should be noted that old-age pensions are enjoyed

¹¹Robert J. Alexander, Labor Relations in Argentina, Brazil, and Chile (New York: McGraw-Hill Book Co., Inc., 1962), pp. 101-102.

by only the very few who survive to the age of sixty-five.

The payments for these benefits have come mostly from the employer and the employee. The complexity in figuring the amount to be paid and the costliness of the system can be seen from the quotation below:

The industrial employer and the employee each is required to contribute to the employee's social security fund 8 percent of the employee's monthly salary. The maximum monthly wage base for the contribution is five times the highest minimum wage in effect in the country. On the basis of the minimum wage scale which became effective on January 1, 1963, the social contribution thus is computed on a maximum of 105,000 curzeiros monthly.

The employer also pays, on the basis of wages paid, the following contributions: 2 percent for the social service funds having as their objectives measures contributing to the health and welfare of employees; 1 percent for the apprenticeship institutes; one-half of 1 percent for medical assistance for the groups covered by the pensions funds; and 0.3 percent for the Rural Social Service Fund.

Employers must pay to each employee, for every dependent child under 14 years of age, an additional salary of 5 percent of the local minimum wage (Law No. 4,266, October 3, 1963). The employer is authorized to deduct the amounts thus paid from his contributions to the social security fund. However, for the purpose of assisting in financing the family bonus, the employer must contribute to the social security fund an amount equal to 6 percent of the local minimum wage, multiplied by the total number of workers regardless of their marital status.¹²

There can be little doubt that the social security system has been expensive in Brazil. Alexander has stated that the cost to the employer has run as high as 50 percent of the total labor bill.¹³ This he said added to the cost of production and probably contributed to inflation. No material has been found upon which to compare the cost

¹²Heare and Frolich, op. cit., p. 17.

¹³Alexander, op. cit., p. 102.

of these social benefits to those of the United States or other countries, or the direct effect of these benefits on the inflationary spiral. All writers agreed that there has been some correlation.

But for all its weaknesses and possible corruption, the social security system has provided health aid for the workers which they could not obtain otherwise. It has helped with the housing problem if only on a small scale. It has drawn the workers to the state while at the same time diminishing the importance of the union in the lives of the workers. The state has succeeded in channeling worker protests from the unions to the bureaucracy of the state. This in turn has weakened the influence of the communists as they have been the major political party representing the unions.

THE TRADE UNION MOVEMENT

The labor movement itself will now be examined; how the labor unions have been organized; the way collective bargaining and grievance procedures work; and the control the government has had over the labor union movement when this control was used. A short look at the characteristics of the labor union leader in Latin America, so as to better understand his role in the labor movement, will also be taken.

The Syndicates

The current organized trade union movement in Brazil has been patterned along the lines of syndicate organizations. These organizations bargained with business syndicates with both of these being subordinate to the State. The syndicate came into being during the regime of Getulio Vargas as did much of the labor legislation. A syndicate has been considered to be a voluntary organization since they were formed by the interested parties and not created by the State. Workers who wanted to form a syndicate first organized into professional associations and petitioned the government for the registration of their association. Until they had been recognized by the Ministry of Labor, these associations only represented their members. After recognition, they represented all workers employed in that particular category, whether or not they were enrolled as members of that syndicate. Over half of the worker syndicates have been located in the six states of

Sao Paulo, Rio Grande do Sul, Minas Gerais, Guanabara, Parana, and Santa Catarina.¹ The syndicates have received funds from the syndical tax which all workers and employers must pay whether they were members of the syndicate or not. The way the tax has worked is explained below:

A major source of financial support is provided by a syndical tax, called the Imposto Sindical, which for employed persons, amounts to 1 day's wages per year for each nonagricultural worker, except those in the Government and in domestic service. Employers' contributions to their own syndicates are based upon the amount of their capital investment.

The syndical tax which is required to be paid by employed persons is deducted from their pay by the employers, who forward it to the Bank of Brazil... The Bank maintains a separate account for each syndicate. The law requires each syndicate to transfer 20 percent of its tax fund to a Social Service Syndicate Fund presided over by the Ministry of Labor, 15 percent to the federation, and 5 percent to the confederation to which it belongs... The remaining 60 percent may be used by the syndicate for a variety of health, educational, and welfare services, as well as for normal trade union activities which are prescribed by law, and which the Government must approve. However, such approval is only a formality, and funds are actually used for a wide variety of other purposes, including political action.

There has been some resentment against the syndical tax, particularly on the part of workers, since they must pay it whether or not there is a union to which they may belong, and since it does not take the place of the union dues which must be paid if they want to participate in union meetings and elections. Some unions also resent the fact that 20 percent of the tax goes to the Government. Some trade union leaders object to this tax because of the resulting control which the Government has over union finances and operations.²

Although the unions and the workers may not have liked the tax, it has made the unions financially strong even though they have been organizationally weak. Nothing has been found in the literature to

¹U. S. Department of Labor, "Labor in Brazil," BLS Report No. 191 (January, 1962), p. 25.

²Ibid., pp. 25-26.

show where this money has gone, but it has been noted that the unions have been politically inclined.

Most worker syndicates have been affiliated with federations of workers of a particular category. Federations usually have had a state as their jurisdictional base. The federations must represent at least five syndicates and must include groups of workers in identical or related activities. The federations, in turn, may be associated with the general confederations of workers. These must consist of at least three federations, but may represent more diverse elements. A confederation has national jurisdiction and represents the workers' point of view on a federal level. The number of confederations has been limited by law to seven; five of which have already been organized.

Collective Bargaining

As mentioned above, collective bargaining has been done through the syndicates. The individual firm hasn't bargained by itself, but through a syndicate, and the syndicate, in turn, has bargained with a labor syndicate. All of the bargaining has been done through the labor courts. These courts not only have been set up to handle collective agreements, but individual grievance proceedings as well.

To take the place of collective bargaining, the Estado Novo provided an elaborate system of labor courts, which would handle not only cases involving violations of labor laws, but things which, under a collective bargaining system, would be handled through negotiations for a collective agreement and through a grievance procedure.³

³Robert J. Alexander, Labor Relations in Argentina, Brazil, and Chile (New York: McGraw-Hill Book Co., Inc., 1962), p. 49.

Relations between management and labor unions haven't been very good in Brazil. Part of the reason for this has been that management has been content to let the government handle most collective agreements. As management and the unions never had to settle disputes among themselves, there wasn't any common ground upon which to settle disputes when the government began to relax its control over the unions. More will be said on this subject later, but first the collective bargaining procedure will be explained. The United States Department of Labor described it in the following way:

The collective labor contracts, which are made by the worker and employer syndicates are required by law to establish wages, hours, and the rights and duties of employers and workers, and may also contain provisions for the settlement of disputes and regarding any other matter of interest to the contracting parties...

Each collective contract must be approved by the Ministry of Labor, which may also make it binding for an entire job category in industry, regionally or nationally. The collective labor contract must, by law, be approved by a two-thirds vote of the union membership or, on failure of this, two-thirds of those present at a subsequent union meeting. Once the union leaders approve, there is, in practice, usually no question of securing the necessary votes. Once in effect, it has the force of law, and responsibility for enforcement rests with the labor inspectors of the Ministry of Labor.⁴

The collective bargaining process also has had the result of tying labor to the state rather than the unions. This worked well for businesses under the Vargas regime when it was pro-business, but when the government swung the other way and became socialistic during the presidency of both Quadros and Goulart, businesses didn't fare so well in the courts. As businesses had never tried to establish any common

⁴U. S. Department of Labor, op. cit., p. 27.

ground upon which to settle bargaining agreements out of court, it was impossible for the firms to do so at that time.

Labor Courts

The labor courts in Brazil have been distinct from the regular judicial courts and have been composed of three major divisions: (1) Local Boards of Conciliation and Judgement, (2) Regional Labor Courts, and (3) a Superior Labor Tribunal. The following is a description of the duties of each:

The Local Boards of Conciliation and Judgement or a justice of the peace if there is no local board, handles employer-employee conflicts over such matters as the failure to pay salaries, maternity benefits, and dismissal wages. These boards attempt to obtain an informal agreement between the parties involved in the dispute. Failing that, they are empowered to arbitrate the case.

The Regional Labor Courts handle (1) disputes arising out of collective labor agreements, (2) cases where the employer seeks to discharge for cause an employee with tenure under the 10-year seniority law, and (3) appeals from the decision of the Boards of Conciliation and Judgement. These courts also first attempt conciliation and, failing this, they have the power to resolve a dispute.

Decisions of the Regional Labor Courts may be appealed to the Superior Labor Tribunal, whose decisions are usually final, with possible appeal to the Supreme Court.⁵

On all levels of the labor court system there has been a representative of both labor and management. On the local boards there has been one representative for each side and the court has been presided over by a professional judge. At the regional level there has been one representative for each side and the court has been presided over by three professional judges. In the Superior Labor Tribunal, there have been

⁵Ibid., p. 28.

two representatives and five career judges.⁶ As can be seen from Table 2 there have been surprisingly few decisions made by the regional labor courts, but there has been a steady increase in the number of decisions which can probably be traced to the gradual relaxing of governmental control over the labor unions.

TABLE 2
THE NUMBER OF JUDGMENTS PASSED DOWN BY THE
REGIONAL LABOR COURTS FROM 1945-1954

1945	134
1946	420
1947	295
1948	183
1949	143
1950	134
1951	177
1952	251
1953	376
1954	371

Source: Robert J. Alexander, Labor Relations in Argentina, Brazil, and Chile (New York: McGraw-Hill Book Company, Inc., 1962).

Grievance Procedure

The grievance system has also worked through the same system of courts. Most of the work done by the local boards has been in the area of individual grievances. Because of the length of time taken to get grievances through the courts and the pro-labor feeling of the government during the late fifties and early sixties, many businesses have started to set up their own grievance procedures. From Table 3 it can be seen that the number of grievances has increased tremendously

⁶ Alexander, op. cit., pp. 90-91.

TABLE 3
GRIEVANCES HANDLED BY JUNTAS DE CONCILIACAO

Year	<u>Grievances</u>	
	Received	Solved
1941	16,979	8,086
1942	21,599	22,721
1943	24,084	26,402
1944	36,402	34,688
1945	45,916	39,185
1946	62,110	59,680
1947	60,568	67,263
1948	51,388	51,912
1949	69,646	63,926
1950	66,144	66,065
1951	78,039	78,049
1952	84,499	74,557
1953	124,761	97,386
1954	93,193	80,958
1955	112,985	88,786

Source: Robert J. Alexander, Labor Relations in Argentina, Brazil, and Chile (New York: McGraw-Hill Book Company, Inc., 1962).

since 1941. By 1956, it took about a month from the time a complaint was heard in the courts before that complaint was settled. This has put a strain on both managerial time and money.

After the revolution of 1964, all of the known communists and many labor leaders had their political privileges taken away for ten years by the army. This may have the opposite effect it should have. With the government pro-business, the managers may again let all grievances go to the labor courts to be settled when they should be taking advantage of the weak organization of the unions to set-up grievance procedures and collective bargaining procedures. These procedures could be set up to the mutual benefit of both management

and labor. Labor should want these because they probably couldn't get a beneficial agreement through the labor courts. The objective for management should be to start making the employees look to the business as their benefactor instead of the state. This should make it much easier for management to motivate the worker and perhaps discourage them from using the minimum wage. Wages could then be used as a motivating force. If the courts ever do become pro-labor again, management would not have to rely on them.

The Union Leader

It was noted earlier that the Brazilian labor leader would rather deal in politics than at the negotiating table. This characteristic seemed to be true of all labor leaders in Latin America. Robert Alexander has made a study of the Latin American labor leader and his characteristics.⁷ His findings gave some insight to the workings and philosophy of the Brazilian labor leader. All the problems of dealing in generalities must be taken into account when applying the findings to any one particular labor leader in any particular country.

The Latin American labor leader has operated in an atmosphere of revolution where profound social, economical, and political transformations have taken place. This revolution has been brought about by the impact of European and North American industrialization on Latin America. This impact has undermined the social conditions of these countries and has helped to bring about the emergence of the middle

⁷Robert Alexander, "The Latin American Labor Leader," Industrial Relations and Social Change (Gainsville: University of Florida Press, 1965), pp. 70-86.

class and intensified nationalism. Latin American labor leaders have not only been interested in bread-and-butter questions, but also in the whole process of achieving for their members full participation in the economical, social, and political life of the countries. It has been for this reason that labor parties have allied themselves with political parties that support these kinds of changes.

Another reason for the close alliance between the labor unions and political parties has been that organized labor was the first institution in Latin America which had the potential to challenge the armed forces for government power. Through the power of the general strike, the unions could unite and overthrow governments dominated by the military, or help defend governments favored by the workers against attempted coups by the armed forces. Thirdly, the very tradition of political domination by labor parties has fed on itself. Latin American unions have always been controlled by labor parties of one kind or another. This tradition has been a hard one to break as the armed forces in these countries must be well aware.

It was interesting to note that United States labor has tried to change this political party thinking of the Latin American labor leader. The quotation below summarizes the attempts and the results:

Since World War II, the labor movement in the United States has spent much energy and considerable money in trying to convince Latin American labor leaders of the danger of being too closely tied to political parties. Although this "missionary" work has had its impact, it has not yet fundamentally altered the situation. Nor is it clear that the kind of nonpartisan labor movement characteristic of the United States is appropriate for Latin America.⁸

⁸Ibid., p. 74.

Usually the labor leader has been better educated than most of the Latin American workers. This has been due partly because of the labor laws of these countries which require that trade union officials be able to read and write. In recent years, labor movements of Latin America have set up schools to train labor leaders. "In Brazil this has been the federations and confederations of Catholic Workers Circles. For a time this was the only rival to the communists in the field of Brazil."⁹

The Latin American labor leader has been becoming, by necessity, a professional. There have been several reasons for this. One is that as the economies of these countries become increasingly complex there will be more large firms; and the increase in the number of large firms in each industry will multiply the job of representing the workers. This means that additional time will have to be spent by the leaders in handling grievances of workers. Also as the economy becomes more complex, more time will have to be spent on economical rather than political factors. Since the union's affairs demand more time of its leaders, the union increasingly will be called upon to support them financially. Mr. Alexander summarized his article with the following conclusions:

First, the labor leader will remain a figure of major political importance during the next few decades. So long as government instability persists, he will need to be active in the political arena, while politicians will seek his support and attempt to limit the potency of his opposition.

Second, as the economies of the Latin American countries become more complex, the trade-union leader will be forced to devote an increasing amount of energy to negotiating collective agreements and

⁹Ibid.

serving his members. Of course, the degree to which he will be free to do this will depend greatly upon the development of sufficient political stability to permit him to divert his attention from politics. Third, the trade-union leader will continue to seek basic changes in Latin American society. He will seek economic development to provide more jobs for his members. He will seek to break the remnants of aristocratic control of government and to increase the participation of union members in civil affairs.¹⁰

These finds should be directly applicable to Brazil. It is of the very upmost importance that the political leaders of Brazil be able to maintain political stability. This is so that the labor leader will be assured of his union's place in society. Only then will he be able to devote his time to running the economic and social affairs of his members. The businessman must recognize the social revolution that has been taking place in his country, and must try to control the events that are taking place so that there will be only social and not military revolutions.

Government Control

The control of the syndicates by the government has been very tight. The law has prescribed the administrative pattern for the unions at all levels. This has included terms of office, qualifications and responsibilities of officers, and the procedure for holding union elections.

Elections could not be held without the approval of the ministry, which had the authority to pass on the qualifications of all candidates and could veto any candidate or any elected official who was deemed "subversive."¹¹

¹⁰ Ibid.

¹¹ Ibid., p. 60.

The Minister of Labor has had the power of withholding the recognition of the syndicates, and the President has had the power over charters for confederations. The following quotation shows how it would be virtually impossible to operate without this recognition:

Insofar as the workers' unions are concerned, it was virtually impossible for them to function unless they had government recognition, since they could not use the labor courts and other arrangements for handling labor problems... They could not bargain with employers and were unlikely to have any funds.¹²

Some more of the powers of the Minister of Labor are explained below:

The law permits the Minister of Labor to "intervene" if disagreements or other circumstances hamper the syndicate in the performance of its functions. The Ministry may also appoint a deputy to administer the union, and to supervise elections of new officers in case of violations of the regulations pertaining to trade unions. There may also be punishment by fines, suspension of the syndicate, or revocation of the union charter. Further, the Ministry of Labor may appoint the chairman of union election meetings, draft model trade union constitutions and by-laws, and interpret a union's constitution and by-laws.¹³

The 1946 Constitution gave the unions the right to strike, but strikes were to be regulated by the government. As of 1962, no legislation had been enacted which contained such regulation. Nevertheless, the government has wide powers in the matter of determining the legality or illegality of a strike. Until 1953, there were relatively few major strikes, but since then strikes have become more numerous. Most of the strikes have been over wage demands caused by worker discontent with the rapid increase in the cost of living. "Most of the strikes have been relatively short, and in all of them workers have gained at least

¹²Ibid., p. 60.

¹³U. S. Department of Labor, op. cit., p. 25.

part of what they had demanded."¹⁴ Another cause of strikes has been the failure on the part of management to meet payrolls or to abide by the decisions of the labor courts.

Through the syndicate tax, the government has been able to control the financial aspects of the union. Thus there hasn't been any aspect of union activity not controlled by the government. This, in turn, has made it imperative that the unions be able to control government activity. This has not been an economic issue, but a political one, which brings us to the part of the paper dealing with communism--the dominate political philosophy in union activities. It already has been seen why most union activity has been done in the political area; now it will be shown why most unions have chosen the Communist Party to carry on that activity.

¹⁴Ibid., p. 26.

THE COMMUNISTS

The Communist Party in Brazil has worked in two different areas: (1) through the poor farmers in the North, and (2) through the government sponsored labor unions, most of which are in the South. This paper hasn't been concerned with the northern farmers, but it has tried to show that through the lack of good management, the poverty of the worker, the use of the father-state image, the ambition of the worker, and the weak organization of the unions, the door has been opened for the communists to extend their influence over the laborer through the labor unions.

With the strict government control on the power of the unions, the power of the party in control of a union has been severely limited. The Minister of Labor has pulled all of the strings, both through his control over recognition of unions, election of officers, and through his control over finances.

The communists could have tried to remove themselves somewhat from the Minister's power by setting up their own labor organizations outside of the government recognized ones. There have been several reasons for not doing so. In the first place, there would be the great difficulty which they knew would face any independent trade-union movement. They would be unable to use the labor courts and thus would be at a real disadvantage when dealing with firms on grievance procedures and in collective bargaining. This has been especially true since management usually has let collective bargaining and grievance procedures go to the

labor courts by never meeting with the union representatives. Secondly, there would be the syndicate tax at the disposal of the communists if they could capture a government sponsored trade-union. On the other hand, if the union was independent the union members still would have to pay the "imposto sindical" without getting any of the funds. For these reasons the communists mostly have tried to stay in the government sponsored labor movement. They have been quite successful in this area, and the following section explains some of the reasons for this success.

Even though the control of the government over the unions has been strong, the communist influence in the trade-union movement has been great. Some of the more important reasons for this are mentioned in the quotation below:

In the first place, the Communists have been the only political element in the country which has worked in an organized way in the trade unions to form groups of party members in each union, to use the influence of this small but organized minority in determining the results of elections and in influencing the policies of the unions.

Because of well-organized caucuses within many unions, the Communists were able to force many non-Communist labor leaders to work with them out of fear of being ousted in the next election. These trade unionists, consciously or unconsciously became tools of the Communists.

The result of the training of Communist trade unionists has been that unions under Communist leadership are frequently the most efficient and most honest labor organizations...Also, the Communists are frequently very effective in their dealings with the employers, preferring to deal directly with them...The Communists have been aided in their work in the trade unions by the general disesteem of the higher ranking leadership in the unions, a leadership inherited from the Vargas period. In fact, one of the Communists' chief elements of strength in the labor movement has been their unceasing attack on the pelegos, those high-echelon trade unionists who owe their positions more to the support of the Ministry of Labor

than to the rank and file or even the secondary leadership of the trade unions...Another source of Communist labor strength has been the Communist press and propaganda. For the most part, the non-Communist newspapers in Rio and other cities have paid little attention to the life of the labor movement.¹

The communists have risen to power in the trade-union movement mainly because there has been little effective opposition. Their activities have been aided by employers who label any militant trade-unionist who has tried to fight for his members a communist. If he wasn't already a communist, the employers forced him to become one.

The power of the Communist Party has fluctuated widely depending upon the feelings of the government. Whenever the Communist Party has gotten too strong, the army has stepped in, overthrown the government, and put the party leaders in jail. This has been, of course, a very fine short-run solution, but it has done little toward bringing about understanding between management, the government, and the politically inclined labor unions. Nor did it change the factors which made the trade-unions turn to the communists in the first place. The government has found it much easier to treat the effects--not the cause of labor unrest.

The ideal solution would be to develop a group of capable non-communist labor leaders to off-set those of the Communist Party. The Catholic Church has done some work in this area, but this takes time. The best answer from the standpoint of a foreign investor would be for the government to outlaw the Communist Party and maintain strict control over the activities of the unions. The problem here would be

¹Robert J. Alexander, Labor Relations in Argentina, Brazil, and Chile (New York: McGraw-Hill Book Co., Inc., 1962), pp. 73-76.

for the government to do so and at the same time keep some pretense of democracy. Totalitarianism seems a high price to pay for foreign capital. In the long-run, the only solution which would seem best for both foreign investors and society as a whole is for the worker to be convinced that capitalism is the best system. The government and management must work together to prove to the unionists that the capitalistic system used by the Brazilian government can do more for the unions, over the long-run, than any other economic system. Even more important, both management and the government must make the system work.

SUMMARY

This paper has dealt with the labor-management problems involved in making a decision as whether or not to invest foreign savings in Brazil. It was assumed that the most important factors determining investment were inflation, communism, and nationalism in the form of anti-Yankee feeling and legislation. The objective of the paper was to show the role that labor-management problems have played in influencing each factor and in trying to draw some conclusion as to what might be done to lessen the detrimental effects that labor-management problems have on these factors. As inflation, communism, and anti-American feeling are not entirely separable items, but each being a cause and a result of the other, most of the paper dealt with examining the various parts of the labor-management sector of Brazil. The only exception to this was the first part of the paper which showed the role that labor had played in providing growth for the economic development of Brazil through the inflationary process.

The paper started out by showing, with the aid of the appendix, that inflation in Brazil had not been a hindrance to the economic growth of Brazil during the 1950's. This was a result of the wage earning sector not being able to increase wages as rapidly as general price levels. These funds were then available to private businesses and the government for investment purposes. In this way, funds moved from the consumption sector to the investment sector by the inflationary process. It was

also shown that this investment took place without a significant misappropriation of resources. Businesses didn't invest in capital which had short gestation periods.

Economic growth through forced savings was stopped when increased pressure from the labor sector for higher wages made labor costs move more closely with general price levels. This resulted in a flight of capital out of the country and a halting of the inflow of foreign capital. Several authors have commented that the only way for Brazil to continue its growth rate is by domestic saving assisted by foreign investment. Growth through the inflationary process is finished.

The paper then explained the differences between the Brazilian manager and the manager from the United States. The Brazilian has not been the professional that his counterpart in the United States has been. As most private businesses in Brazil have been closed corporations, the owners have picked relatives to manage the businesses. A manager has gotten his job because of his blood-line--not his ability. The chance that the Brazilian will become a professional in the near future is rather slim. There are few schools of business administration in Brazil and few qualified college students want to become managers. Any kind of manual labor in Brazil has a low social status; so most students go into college teaching, governmental administration, research, or the army.

Most managers have received all of their training on the job, and then worked their way up only to be passed over by relatives of the owner if they were not relatives themselves. Because of the lack of

adequate training, the next generation of managers will be little different than the present. If the foreign investor wants to put his money in Brazil, he will probably have to continue to send his own managers so as to insure the safety of his investment.

It was shown that the worker in Brazil has been to a great extent illiterate and untrained. This lack of skilled workers has presented a real cost of doing business in Brazil. Like the managers, most workers have had to be trained on the job. In many cases, the worker must be given some education before he can be trained. The government has set up a training program through private businesses called SENAI. This has been a very good program, but has not been able to turn out the number of skilled workers demanded by industry. Because of the great demand, the laborers have been induced to move from job to job as opportunities develop.

Most workers in Brazil have been good employees, both hard working and ambitious. They usually have wanted to better themselves by acquiring some skill. The skilled workers, having been associated with the middle class in Brazil, have had a higher social status than the common laborer.

Most skilled laborers in the United States belong to some kind of a trade union. Probably less than 15% of the laborers in Brazil are now active in the trade union movement. The government has made sure that the laborer looks to the state for solutions to his desires rather than the union. The government has enacted a great number of laws which benefit the workers and have had the result of tying the worker to the state. The government has enacted a minimum wage law

that moves with some degree of accuracy with the cost of living. This was needed because most wages have been placed at the minimum wage rate.

The workers have been paid a bonus each year equal to one-twelfth of the monthly salary for each month worked. The Constitution has guaranteed the worker time and a fifth for all overtime. Work on holidays has not been permitted without the permission of the Ministry of Labor. The Constitution also has guaranteed the worker twenty days of vacation a year after a years employment. After ten years service, the worker would acquire tenure and could not be dismissed. To fire a worker who has not worked ten years, the employer has had to pay him one month's wage for each year worked. To keep workers from obtaining tenure, they have been fired after as much as 7 to 8 year's service. This increased turnover has kept the skilled labor force from fully developing.

The government has enacted a very large social security program which entitles the worker to old age benefits, disability payments, maternity benefits, burial benefits, workman's compensation, and some housing benefits. The social security system has been quite inefficient and costly. As much as fifty percent of the cost of a worker has been tied up in social security benefits, SENAI payments, and other costs. The result of these laws has been that the worker has looked to the state as the institution that could best fulfill his needs rather than a union.

Collective bargaining and grievance procedures have been handled through a system of government labor courts. Each firm has joined a syndicate with other firms. The syndicate has bargained with a worker

syndicate. How well each group has done has depended upon the attitude of the government. For this reason, the labor leader has had to be politically inclined so as to insure the bargaining position of his members.

The labor leader also has been involved in politics because he has been a part of a social revolution which has taken place all over Latin America. The labor leader has tried to win social gains for his workers as well as economic ones. It has been and will continue to be the job of the government and management to insure that these revolutions remain social and not military.

The Communist Party has been the most influential political party in the trade union movement. They have been able to set up organized caucuses in many unions and use these minorities to force labor leaders to work with them. As the communists usually have been the best trained leaders in the labor movement, the unions under the influence of the communists have frequently been the most efficient.

The controls that the government have had over labor unions, i.e., recognition of officer candidates, recognition of the union itself, control of finances, etc., has limited the influence of the communists in the labor movement. The communists wouldn't start their own unions because they would have the use of the syndicate tax if they could control a government sponsored union.

The army has periodically staged revolutions in Brazil and has put the communist leader in jail or exile. But this isn't a lasting solution to the problem. The government and business must

work together to prove to the workers that the capitalistic system used in Brazil can do more in the long-run for the workers, than any other system.

In order to get foreign investment, the government must be able to slow down the inflation rate. This can only be accomplished if the government maintains tight control over the wages paid in the labor market. The government must also be able to free the unions from the influence of the communists in the labor market. The Minister of Labor already has this power. But even more important, the government and business must let a strong group of non-communist leaders develop in order to keep the communists out of the labor movement. One of the ways to do this would be for each company to set up its own grievance procedures. This would give labor leaders experience in dealing with businesses on an economic basis rather than on a political basis. This would have the added effect of making the worker begin to look to the business rather than the government for the satisfaction of his wants. The government also will have to prove to the people that foreign businesses and nationalism are not necessarily incompatible with each other. Foreign investment is needed for Brazil to develop as a modern nation.

One factor that hasn't been mentioned before is that the government is going to have to maintain some degree of stability if it is going to lure foreign investment into Brazil. If inflation can be controlled the labor movement no longer will have to use communism to get its demands. If the degree of nationalism in the country can be controlled, then

there should be political stability in Brazil. Political instability is a result of these other factors--not a cause.

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APPENDIX

APPENDIX

Werner Baer and Isaac Kerstenetzky have shown in Mr. Baer's book, Industrialization and Economic Development in Brazil, how inflation in Brazil brought about forced savings in the private sector of the economy through a reallocation of national income. The reallocation came about because the increases in wages in the labor sector of the economy didn't keep up with the increases in the cost of living. Mr. Baer also showed that during the fifties this reallocation through forced savings helped the country to continue its rapid rate of growth. This was done without any significant missallocation of resources.

Table 4 shows how capital formation had traditionally been accomplished through the private sector, and also how the influence of the public sector increased in the late 1950's until it was 38.2 percent of the total. Table 5 contains a proportional distribution of sources of funds on an aggregative level. By comparing Table 4 with Table 5 it can be seen that savings in the private sector have been much greater than savings in the public sector. Also, throughout most of the period, the government's share in the investment sector has been larger than its share of total savings. This means that in one way or another non-governmental savings were an important element in financing the government's fixed capital formation.

The importance of foreign savings had fluctuated over the postwar period; only exceeding the 15 percent mark once. Nevertheless, it cannot

TABLE 4

BRAZIL'S PRINCIPAL SOURCES OF CAPITAL FORMATION
(PERCENTAGE DISTRIBUTION)

	1947	1948	1949	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960
Savings of the private sector.....	14	17	31	41	26	28	52	40	38	38	40	44	34	42
Depreciation of fixed capital.....	32	31	38	44	26	24	36	24	30	33	31	31	25	28
Savings of government.....	24	24	27	19	22	16	7	18	11	4	8	27	24	22
Balance of payments on current account.....	12	3	8	-7	15	18	-1	6	1	.5	8	9	9	14
Errors and omissions.....	18	25	-4	3	11	14	6	12	20	24.5	13	-11	8	-6
Total.....	100	100	100	100	100	100	100	100	100	100	100	100	100	100
Gross fixed investment over gross domestic product.....	17	16	15	13	16	16	13	16	14	14	13	14	16	15
Real growth rate.....	1.8	9.5	5.6	5.0	5.1	5.6	3.2	7.7	6.8	1.9	6.9	6.6	7.3	6.3

Note: Large errors and omissions are due to the fact that many of the savings figures came from sources which were difficult to reconcile exactly with Brazil's national accounting procedure. Some are also due to the arbitrary way in which depreciation is calculated (see Appendix 1), which might be accurate over long periods but causes occasional errors of estimation for specific years. The converting of dollar balance-of-payments figures is also a source of errors because of the difficulty in choosing an adequate rate of exchange for conversions.

Source: Calculated from data in Revista Brasileira de Economia, Marco 1962.

Source: Werner Baer, Industrialization and Economic Development (Homewood, Illinois: Richard D. Irwin, 1965).

TABLE 5
PUBLIC AND PRIVATE SECTOR'S SHARE OF FIXED CAPITAL FORMATION

Year	Public Sector	Mixed Government Enterprises	Private Sector*	Total
1947	15.8%	--	84.2%	100.0%
1948	23.3	--	76.7	100.0
1949	29.4	--	70.6	100.0
1950	35.1	--	64.9	100.0
1951	25.0	--	75.0	100.0
1952	26.8	--	73.2	100.0
1953	29.4	--	70.6	100.0
1954	24.3	--	75.7	100.0
1955	24.0	--	76.0	100.0
1956	24.8	3.1%	72.1	100.0
1957	37.0	4.7	58.3	100.0
1958	40.8	5.5	53.7	100.0
1959	32.3	6.0	61.7	100.0
1960	38.2	8.0	53.6	100.0

*Until 1956 the private sector includes mixed government enterprises.

Source: Fundacao Getulio Vargas, estimated from data in Revista Brasileira de Economia, Marco 1962.

Source: Werner Baer, Industrialization and Economic Development (Homewood, Illinois: Richard D. Irwin, 1965).

be written off as being unimportant, since the areas it went into were of strategic importance in the Brazilian growth process--both in the financing of government-sponsored infrastructure investment and in private investment. It should be also noted that in the 1950's there was a close correlation between the level of foreign finance and the rate of growth in fixed capital.

Table 6 shows more clearly how the Brazilian government has been relatively bigger investor than a saver. It was Bayer and Kerstenetzky's contention that much of the redistribution of resources from the private

TABLE 6

SAVINGS AND CAPITAL FORMATION OF THE PRIVATE AND GOVERNMENT
SECTORS AS A PROPORTION OF GROSS DOMESTIC INCOME

Year	<u>Private Sector</u>		<u>Public Sector</u>		Balance of Payments Deficit on Current Account
	Savings	Capital Formation	Savings	Capital Formation	
1947	12	14	4	3	2
1948	14	14	4	4	0
1949	10	10	4	5	1
1950	12	8	2	5	-1
1951	13	17	5	5	3
1952	16	17	4	6	4
1953	15	11	1	4	0
1954	19	19	4	5	1
1955	17	14	2	5	0
1956	17	13	1	4	0
1957	16	12	1	7	2
1958	12	10	5	9	2
1959	16	14	6	10	2
1960	14	12	5	10	3

Source: Computed from national accounts figures of the Fundacao Getulio Vargas by L. Kerstenetsky.

Source: Werner Baer, Industrialization and Economic Development (Homewood, Illinois: Richard D. Irwin, 1965).

sector to the public sector was accomplished by the inflationary process. The few times that the private savings proportion was smaller than the public savings proportion there were substantial inflows of foreign savings to make up the deficit.

In Table 7 you can see that about 55-60 percent of the savings from the private sector came in the form of retained earnings. The balance represents savings by the public through increased holdings of money of time deposits in commercial or federal savings banks or reserves of

TABLE 7
PRINCIPAL SOURCES OF NET PRIVATE SAVINGS

Year	Retained Earnings	Changes of Money Supply in Hands of Public	Other*	Total
1947	54	3	43	100
1948	45	18	37	100
1949	33	18	49	100
1950	29	48	23	100
1951	40	22	38	100
1952	47	15	38	100
1953	46	21	33	100
1954	49	24	27	100
1955	60	19	21	100
1956	58	21	21	100
1957	46	20	34	100
1958	59	20	21	100
1959	53	23	24	100
1960	55	8	37	100

*Consists principally of reserves of insurance and capitalization companies and time deposits in commercial banks and savings banks of the federal government.

Source: Revista Brasileira de Economia, Marco 1962, and SUMOC, Relaterio do Exercisio de 1961.

Source: Werner Baer, Industrialization and Economic Development (Homewood, Illinois: Richard D. Irwin, 1965).

capitalization and insurance companies. This balance was appropriated by the government and private sectors, partially through loans and partially through the inflationary process. The holders of liquid assets wanted to protect their savings by putting the money into assets whose value moved more closely with the movement of price levels. Table 8 provides even more conclusive evidence of the reliance of the private businesses on internal funds for financing investment activities.

TABLE 8

ORIGIN AND USE OF FUNDS OF CORPORATIONS
(IN PERCENTAGE OF ORIGIN AND USE)

	1954	1955	1956	1957	1958	1959	1960	1961
ALL CORPORATIONS								
<u>Origin</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>
<u>External</u>	<u>77</u>	<u>71</u>	<u>57</u>	<u>79</u>	<u>68</u>	<u>67</u>	<u>66</u>	<u>71</u>
Capital.....	15	22	22	14	16	20	18	13
Total current liabilities of banks.....	7	8	5	9	9	10	9	10
Total current liabilities of others.....	55	41	30	56	43	37	39	48
<u>Internal</u>	<u>23</u>	<u>29</u>	<u>43</u>	<u>21</u>	<u>32</u>	<u>33</u>	<u>34</u>	<u>29</u>
Reappraisals.....	--	2	18	3	--	3	4	3
Reserves.....	4	5	14	3	2	6	6	3
New reserves.....	14	16	9	10	24	17	17	18
Depreciation.....	5	6	2	5	6	7	7	5
<u>Use</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>
Fixed assets.....	22	30	34	27	30	35	36	30
Liquid assets.....	--	7	3	12	3	7	4	3
Current assets, inv.....	26	20	10	11	13	16	14	18
Current assets, others.....	52	43	53	50	54	42	46	49
COMMERCE								
<u>Origin</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>
<u>External</u>	<u>83</u>	<u>28</u>	<u>97</u>	<u>100</u>	<u>68</u>	<u>76</u>	<u>75</u>	<u>74</u>
Capital.....	35	27	58	35	11	13	16	16
Total current liabilities of banks.....	7	1	1	22	7	10	11	14
Total current liabilities of others.....	41	--	38	43	50	53	48	44
<u>Internal</u>	<u>17</u>	<u>72</u>	<u>2</u>	<u>--</u>	<u>32</u>	<u>23</u>	<u>25</u>	<u>26</u>
Reappraisals.....	--	--	--	--	--	2	--	1
Reserves.....	13	23	2	-3	30	19	22	23
Depreciation.....	4	49	--	3	2	2	3	2
<u>Use</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>
Fixed assets.....	14	22	13	16	17	12	10	13
Liquid assets.....	-17	6	--	10	3	5	5	3
Current assets, inv.....	54	30	27	14	21	16	14	33
Current assets, others.....	48	42	56	60	59	66	69	51

TABLE 8 (continued)

	1954	1955	1956	1957	1958	1959	1960	1961
INDUSTRY								
Origin.....	100	100	100	100	100	100	100	100
External.....	69	44	100	76	70	63	64	66
Capital.....	28	36	65	30	20	22	20	13
Total current liabilities								
of banks.....	9	8	10	11	9	11	8	10
Total current liabilities								
of others.....	32	--	26	35	41	30	36	43
Internal.....	32	56	-1	24	30	36	36	34
Reappraisals.....	--	--	--	--	--	4	3	4
Reserves.....	23	20	-6	17	23	25	27	24
Depreciation.....	9	36	5	7	7	7	7	6
Use.....	100	100	100	100	100	100	100	100
Fixed assets.....	32	41	38	36	31	36	36	29
Liquid assets.....	-4	5	2	6	4	7	4	4
Current assets, inv.....	39	21	15	20	14	19	17	21
Current assets, others.....	33	33	44	39	51	38	43	46

Source: Every year the Conjuntura Economica publishes the balance sheets of corporations--in 1961 for 6,441 corporations in the fields of commerce, industry, transportation and public services, and other miscellaneous activities. The ratios in this table were computed from these balance sheets.

Source: Werner Baer, Industrialization and Economic Development (Homewood, Illinois: Richard D. Irwin, Inc., 1965).

The proportion of fixed assets on the use side of funds, representing gross fixed investment activities of firms, generally has been matched on the origin side of funds by the internal funds proportion. This is a good indication that firms relied primarily on their internal resources for investment funds.

Table 9 shows how Brazil's high rate of real growth was accompanied by high rates of inflation. It is interesting to note that the high rate of real growth in the latter part of the fifties, when the rate of inflation

TABLE 9
REAL GROWTH RATE AND CHANGES IN PRICE LEVELS
(PERCENTAGE GROWTH RATES)

Year	Real Rate of Growth	Cost of Living Changes:*		Wholesale Price Changes*
		Rio de Janeiro	Sao Paulo	
1947	1.8	6	24	-1
1948	9.5	4	3	12
1949	5.6	6	4	17
1950	5.0	11	4	14
1951	5.1	11	11	12
1952	5.6	21	24	10
1953	3.2	17	16	25
1954	7.7	26	23	24
1955	6.8	19	17	9
1956	1.9	22	33	26
1957	6.9	13	14	3
1958	6.6	17	23	28
1959	7.3	52	43	36
1960	6.3	24	32	33
1961	7.7	43	43	50

*Annual change, December each year.

Source: Conjuntura Economica, Janeiro 1963, and Revista Brasileira de Economia, Marco 1962.

Source: Werner Baer, Industrialization and Economic Development Homewood, Illinois: Richard D. Irwin, Inc., 1965).

was increasing was on the average, higher than previously. This shows that inflation didn't have a negative effect on the country's development. It even can be partially shown that it had a positive effect. Table 4 showed that inflation must have had an effect on capital formation, since the only explanation for the transfer of savings from the private sector, which usually saved more than it invested, to the government sector, which usually saved less than it invested, lies in the inflationary process.

It is also Baer and Kerstenetzky's contention that inflation not only acted as an intersectoral mechanism for transferring savings, but that it also acted as a mechanism for transferring resources from the consuming to the investing sector, be it governmental or private. Table 10 shows the possibility of a proportional decline in wages and salary to gross domestic income when the factor of indirect taxes are taken into account. Indirect taxes increased at a faster rate in relation to gross income at factor cost than did labor income. The Brazilian tax system is quite regressive in nature. Because of this, the burden of payment is put on the lower classes more than the upper. The conclusion is that this indicates the possibility of a proportional decline of the laborers' share of National Income. Table 11 points this out even clearer. The ratio of wages paid to worker value added for the entire manufacturing sector and some select industries were taken for several years. The decline in the ratio is significant in all cases and is even more noticeable in the second half of the 1950's at the time when the rate of inflation was higher than it was in the earlier part of that decade.

Table 12 shows how the median salary in manufacturing industries lagged behind the cost of living increases. This is not to say that the workers suffered in their standard of living, but that the increase of the living standard was slower than the increase in the real national product. The declining share of the wage earning sector contributed to the large retained earnings which were used by the private sector in its

TABLE 10

RENUMERATION OF LABOR AND INDIRECT TAXES AS A PROPORTION
OF GROSS NATIONAL INCOME AT FACTOR COST

Year	Remuneration of Labor over Gross Income at Factor Cost	Indirect Taxes over Gross Income at Factor Cost
1947	39	11
1948	40	11
1949	41	12
1950	41	12
1951	39	13
1952	40	13
1953	40	12
1954	39	15
1955	42	13
1956	45	14
1957	45	14
1958	45	17
1959	45	19
1960	44	18

Source: Calculations made by I. Kerstenetsky from data of the Fundacao Getulio Vargas.

Source: Werner Baer, Industrialization and Economic Development (Homewood, Illinois: Richard D. Irwin, Inc., 1965).

TABLE 11

RATIO OF WAGES PAID TO WORKERS TO VALUE ADDED

<u>All Manufacturing Industries</u>	<u>Textiles</u>	<u>Food Products</u>
1949.....23	1949.....30	1949.....14
1955.....24	1955.....32	1955.....18
1956.....24	1956.....32	1956.....16
1957.....23	1957.....35	1957.....16
1958.....21	1958.....32	1958.....15
1959.....19	1959.....29	1959.....14
<u>Basic Metals Industries and Metal Products</u>	<u>Machinery</u>	
1949.....27	1949.....32	
1955.....27	1955.....32	
1956.....25	1956.....30	
1957.....25	1957.....31	
1958.....23	1958.....28	
1959.....21	1959.....23.5	

Source: Computed from IBGE, Censo Industrial, 1950 and 1960, and IBGE, Producao Industrial do Brasil, 1955, 1956, 1957, 1958.

Source: Werner Baer, Industrialization and Economic Development (Homewood, Illinois: Richard D. Irwin, 1965).

TABLE 12
WAGE BEHAVIOR IN BRAZIL

A. Changes in Minimum Wages	
Date of Effectiveness	Minimum Wage (CR\$'s) (Per Month)
1940 (July).....	240
1943 (December).....	380
1952 (January).....	1,200
1954 (July).....	2,400
1956 (August).....	3,800
1959 (January).....	6,000
1960 (October).....	9,600
1961 (October).....	13,440

Source: Anuario Estatístico.

B. Median Salary in Manufacturing Industry (Selected Years)

	1949-55	1955-56	1956-57	1957-58
<u>Percentage Increase of Wages in</u>				
<u>Total Manufacturing Industries</u>	192	34	22	19
Basic metal industries.....	183	30	16	21
Machinery.....	163	27	15	21
Textiles.....	175	33	19	17
Food products.....	221	48	25	14
<u>Cost of Living Increases</u>				
Rio de Janeiro.....	148	21	16	15
Sao Paulo.....	143	23	19	15
<u>Changes in Real Output Total</u>				
<u>Manufacturing Industries.....</u>	66	6	6	17
Basic metal industries.....	81	16	-8	20
Machinery.....	--	15	-4	8
Textiles.....	41	0	-12	34
Food products.....	46	-12	22	10

Source: IBGE, Producao Industrial Brasileira, 1955-1958, Conjuntura Economica, Revista Brasileira de Economia, Marco 1962.

TABLE 12 (continued)

C. Short-Period Changes in Median Salaries
of Workers in Manufacturing

Time Period	Basic Metals Industries	Machinery	Textiles	Food Products	Total	Cost of Living (Gb)
April 1955-						
April 1956.....	9	8	11	7	13	14
April 1956-						
November 1956..	32	27	43	51	38	14
November 1956-						
April 1957.....	4	2	1	--	1	7
April 1957-						
November 1957..	11	12	2	3	5	3
November 1957-						
April 1958.....	5	5	8	3	6	23
April 1958-						
November 1958..	11	9	8	6	8	10
November 1958-						
April 1959.....	19	22	32	39	30	20
April 1959-						
November 1959..	15	14	8	2	10	26

Source: Anuario Estadístico.

D. Percentage Increase in Salaries of Federal Civil Service
and Cost of Living in Guanabara

Classes of Civil Servants	1945- 48	1948- 52	1952- 55	1955- 56	1956- 59	1959- July 1960	July 1960- Dec. 1960
A	41	67	40	29	30	28	60
B	38	64	39	61	30	--	54
C	37	60	37	65	30	--	60
D	37	57	36	77	30	--	62
E	38	52	34	85	30	--	65
F	36	53	34	80	30	--	66
G	31	46	31	80	30	--	--
H	32	39	28	81	30	--	55
I	33	33	25	82	30	--	--
J	34	28	22	78	30	--	46
K	31	23	28	69	30	--	53
L	32	19	24	70	30	--	51
M	35	15	14	81	30	--	50
N	38	11	12	72	30	--	50
O	40	7	11	70	30	13	44
Cost of Living	28	51	72	21	85	28	15

TABLE 12 (continued)

Note: Since 1959 a new civil service classification has existed. The proportionate increases listed since 1959 are roughly comparable to the old ones.

Source: Fundacao Getulio Vargas.

Source: Werner Baer, Industrialization and Economic Development in Brazil (Homewood, Illinois: Richard D. Irwin, Inc., 1965).

investment program. While the higher investment proportion of the government, in comparison to its savings proportion, suggests that through the inflationary process the government managed to transfer savings from the private to the public sector.

One of the usual consequences of inflation is that it misdirects the capital into inefficient resources. These resources usually are found in excessive inventories. Table 13 shows a breakdown of investment into fixed capital formation and inventory investment. This is used because there isn't, at the present time, any breakdowns of yearly sectoral investment. The early postwar years were characterized by inventory decumulations while the nineteen fifties were dominated by inventory accumulations; although the rate does not seem to have a close connection with changes in the rate of inflation. Most of the government accumulation was for coffee. Another indication that inventory accumulation wasn't excessive is seen in Table 8. On the use side of the corporate funds there is a relatively small proportion of the funds used for inventory, and there doesn't seem to be any discernible trend in inventory accumulation.

Besides the investment inefficiencies which are usually present when secular inflation exists, one might expect the other investments in

TABLE 13

BRAZILIAN INVENTORY ACCUMULATION

Year	Inventory as a % of Total Capital For- mation	Distribution of Inventory Accumulation				
		Private		Government	Total	Total
		Agriculture	Urban			
1947	-11*					
1948	- 2*					
1949	-14*					
1950	-16*					
1951	15	24%	76%	--	(--)**	100%
1952	24	27	42	31	(31)	100
1953	5	167	-30	37	(-37)	100
1954	20	36	54	10	(15)***	100
1955	12	70	6	24	(44)***	100
1956	12	83	2	15	(7.5)	100
1957	19	42	18	40	(30)	100
1958	12	36	-36	100	(97)	100
1959	19	16	3	81	(71)	100
1960	16	18	2	80	(71)	100

*From 1947 to 1950 the decumulation of inventory was almost entirely concentrated in the private sector.

**In parentheses, percentage of government total composed of coffee inventories.

***These numbers are higher than the proportion attributed to the government sector because decumulation took place in the noncoffee government sector.

Source: Computed from data furnished by the Fundacao Getulio Vargas, unpublished.

Source: Werner Baer, Industrialization and Economic Development in Brazil (Homewood, Illinois: Richard D. Irwin, Inc., 1965).

projects to have a short gestation period. Less investment might be expected in heavy industry and public utilities and more investment in such items as housing. Table 14 doesn't indicate that there wasn't a hedge against inflation in Brazil by investing in capital with short gestation periods as not all industry is represented in the table. But there doesn't appear to exist any obvious lopsidedness in the investment structure of the industries that are represented in the table.

TABLE 14
PRODUCTION INDEXES
(1948 100)

Year	Cement	Steel	Residential Construction*
1947	82	79	91
1949	115	119	110
1950	125	153	123
1951	130	167	161
1952	145	174	179
1953	183	199	199
1954	217	230	191
1955	234	231	93
1956	294	268	163
1957	287	248	182
1958	337	273	124
1959	341	301	109
1960	397	356	133
1961	421	390	114

*This represents only construction permits. It thus might somewhat overestimate actual construction.

Source: Conjuntura Economica, Janeiro 1963.

Source: Werner Baer, Industrialization and Economic Development in Brazil (Homewood, Illinois: Richard D. Irwin, Inc., 1965).

If one will accept the fact that the capital/output ratio can be used as an indicator of the efficiency of the investment structure, then Table 15 would indicate that efficiency increased, not decreased, with inflation in the nineteen fifties. The decline of the ratio in the periods with higher inflation rates would not indicate a less efficient investment structure, since this decline could be taken to mean an increase in the productivity of investment.

TABLE 15
CHANGES IN THE CAPITAL/OUTPUT RATIO

	1947-52	1953-56	1957-60	1947-60
Gross fixed investment/GDP in current prices.....	15.1	14.4	14.7	14.7
Gross fixed investment/GDP in constant prices.....	13.1	13.4	14.1	13.4
Real rate of growth, yearly average.....	6.1	5.4	6.7	6.0
Capital/Output ratio--.....	2.52	2.67	2.19	2.45
current prices: 1/3.....	(103)*	(109)*	(89)*	(100)*
Capital/Output ratio--.....	2.15	2.48	2.10	2.23
constant prices: 2/3.....	(96)*	(111)*	(94)*	(100)*

*Ratio of the capital/output ratio for the period to the capital/output ratio for 1947-60 as a whole.

Source: Computed from data in Revista Brasileira de Economia, Marco, 1962.

Source: Werner Baer, Industrialization and Economic Development in Brazil (Homewood, Illinois: Richard D. Irwin, Inc., 1965).

Baer and Kerstenetzky explained the reason for so few distortions in the investment structure of the Brazilian economy as follows:

...one might also claim that inflation in a country like Brazil is very old, and the business sector has long ago learned how to adjust to price changes. Since it was easy to adjust to price changes and since over long periods of time prices kept ahead of certain costs, especially labor costs, investors found that inflation had little negative effect on their plans. Since external finance is small, i.e., finance through financial institutions, the problems of cash balances and the controlled rate of interest were not pressing ones. Finally, since in an economy with a history of inflation, money has never been looked upon as a store of value, and since the development possibilities of the country with its extensive markets are real and are just coming into being, the real long-term return on fixed capital investment seems to have been stronger than the short-term hedge against price increases.¹

Although the findings in this study weren't conclusive, the implications in the area of economic growth of underdeveloped countries are so important that they can't be ignored.

¹Werner Baer, Industrialization and Economic Development in Brazil (Homewood, Illinois: Richard D. Irwin, Inc., 1965), p. 135.

TABLE 16

BRAZILIAN GOVERNMENT REVENUE STRUCTURE

A. Revenue According to Levels of Government						
	1949	1957	1960			
Federal.....	50%	45%	48%			
States.....	32	37	38			
Federal District.....	7	6	5			
Municipalities.....	11	12	9			
Total.....	100%	100%	100%			
B. Revenue of Federal Government by Types of Taxes						
	1949	1957	1960			
Excise.....	38%	41%	43%			
Income tax.....	33	35	32			
Import tax.....	17	12	11			
Stamp tax and similar.....	12	12	14			
Total.....	100%	100%	100%			
C. Further Breakdown of Brazilian Tax Structure by All Government Levels						
	1949			1960		
	Federal	State	Munic- ipal	Federal	State	Munic- ipal
Sales.....		68.9%			76.1%	
Excise.....	26.9%			24.2%		
Income.....	23.1			18.6		
Fuel and lubricants.....	5.8			6.0		
Stamp duties.....	7.7			7.4		
Import duties.....	8.2			6.4		
Tax on houses.....			25.8%			32.3%
Tax on professions.....			32.3			28.9
Transmission <u>inter vivos</u>		8.7			4.0	
Land property (rural & urban)..<		2.9	6.4		1.1	6.8
Business license.....			12.9			7.6
Power consumption.....	--			.5		
Transmission <u>causa mortis</u>		1.9			1.0	
Net premiums in imports (agios)				15.2		
Social security contributions..	17.3			16.7		
Others.....	11.0	17.6	22.6	5.0	17.8	24.4
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Werner Baer, Industrialization and Economic Development in Brazil (Homewood, Illinois: Richard D. Irwin, Inc., 1965).

MAJOR FACTORS AFFECTING FOREIGN INVESTMENT IN BRAZIL
AND THE INFLUENCE OF LABOR MANAGEMENT PROBLEMS
ON EACH OF THESE FACTORS

by

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B. B. A., George Washington University, 1965

AN ABSTRACT OF A MASTER'S REPORT

submitted in partial fulfillment of the

requirements for the degree

MASTER OF SCIENCE

College of Commerce

KANSAS STATE UNIVERSITY
Manhattan, Kansas

1966

This paper was written to show the labor-management problems involved in making decisions relating to the investment of foreign savings in Brazil. It was assumed that the three most important factors determining investment in Brazil were inflation, communism, and nationalism in the form of anti-Yankee feeling and legislation.

Findings of this study indicate that inflation in Brazil during the 1950's was not a hindrance to the economic growth of the country. The reason for this being that the wage earning sector of the economy was not able to increase wages as rapidly as the increase in price levels. The difference between wage increases and general price level increases could be invested in capital instead of being spent in the consumer market. The findings also show that inflation didn't cause a misappropriation of resources during the 1950's.

Growth through the inflationary process was halted as a result of wage earners being able to force wages up at a rate more in line with cost of living increases. The result has been a flight of capital out of the country and a halting of foreign investment into the country. Because of this, growth through the inflationary process is no longer feasible.

The findings show how the manager in Brazil has not been the professional that his counterpart in the United States has been. Managers have received their jobs because they were relatives of the owners, not because of their ability. There have been few college students in Brazil that have wanted to become managers, and fewer schools set up to train them. Consequently, most managers have had to be trained on the job.

The worker, like the manager, has been unfit for work in an industrialized society. Training for the worker has been accomplished on the job with some help from the government controlled SENAI program. However, the SENAI program has been unable to meet the demand for skilled workers.

The government has enacted many laws which have been designed to draw the worker to the State rather than the union. Some of these laws have included minimum wage legislation, "a thirteenth month bonus," vacation rights, seniority rights, over-time guarantees, and Social Security legislation. The Social Security legislation has provided old age benefits, disability, maternity, burial, housing benefits, and workmen's compensation. These benefits have been very expensive, amounting to as much as fifty percent of the total labor bill.

Collective bargaining and grievance procedures have been handled through a system of labor courts. The decisions reached by the courts depend largely upon the attitude of the government toward business and labor. The government has controlled every aspect of the labor movement including election of officers, recognition of unions, and union finances. The labor leaders have had to be politically inclined so as to protect the interests of their members. The labor leader also has been interested in politics because of the social revolution which has been taking place in Latin America. The labor leader wants to insure social gains for his members as well as economic gains.

The Communist Party has been the dominant political party in the labor movement because they have had little opposition from other parties, and also because the communist controlled unions have frequently

had the best leadership and been the most efficiently run. The influence of the Communist Party has been lessened by the strong governmental control over the labor movement.

In order for the government to lure foreign investment back to Brazil, it must be able to slow down the rate of inflation. To be able to do this the government must have strict control over labor prices. The government also will have to insure that the labor unions are relatively free of communist control, and government and business will have to let efficient non-communist labor leaders develop so as to offset the communist leaders.

Finally the government must persuade both business and labor that foreign business and national interests are not incompatible; but that the latter depends a great deal on the former.

